FINANCIAL HISTORY

THE MAGAZINE OF THE MUSEUM OF AMERICAN FINANCE

Defining Moments of Alexander Hamilton's Career

Business and Protest Culture, 1960s–1980s

Gutsy Financial Journalism in the S&L Crisis

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FINANCIAL HISTORY

THE MAGAZINE OF THE MUSEUM OF AMERICAN FINANCE

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MU$EUM OF AMERICAN FINANCE

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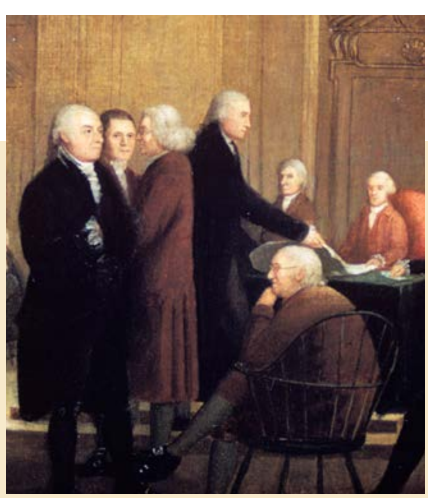
ON THE COVER

Congress Voting Independence, circa 1776, painting by Edward Savage and/or Robert Edge Pine. See related article, page 24.



MoAF Announces Two New Video Series

Message to Members

David J. Cowen | President and CEO

Several years ago, our Board hired outside consultants to look at the Museum and offer strategic recommendations. One of their observations was that they were amazed that so small a staff could consistently produce so many first rate programs and exhibits. When looking at other museums in our peer group, they noted we were understaffed by a factor of at least two, if not three, times.

With a small staff, when we lose any of the core members it feels like losing part of the family. And one of our family members, Development Director Jeanne Driscoll, has retired after 10 years of service. We couldn't be happier for Jeanne. She will be spending the summer on Martha's Vineyard, and we wish her much comfort and happiness in her retirement years with her new husband.

One of my favorite historical quotes is: "Victory has a hundred fathers and defeat is an orphan." If anyone can take credit for being the parent of our annual Gala, it is Jeanne. Through her leadership, the Gala has grown and prospered over the years and has raised millions of dollars. She has managed it since its inception, and it is a testimony to her hard work that it became the incredible evening it currently is. Thank you, Jeanne.

Another of our prominent programs is our Evening Lecture Series, and we recently had a breakthrough event in that series. On April 12, we live streamed a program in partnership with Bloomberg for Education (formerly Bloomberg University). The event featured Professor Aswath Damodaran, a popular valuations professor at New York University, and more than 4,500 students globally tuned into the live stream. The video remains up on our YouTube channel (YouTube.com/FinanceMuseum), and you can find it in the "Popular Uploads" category.

Mark your calendars for our next live stream partnership with Bloomberg, which will occur on September 12 at 5:30 p.m. The speaker will be Harvard Business School Professor Mihir Desai on his latest book, *The Wisdom of Finance: Discovering Humanity in the World of Risk and Return.*

On May 9, at our evening lecture with *New York Times* bestselling author William Cohan, we announced the upcoming launch of our CEO video series, which will feature C-Suite executives from financial firms answering several questions under the umbrella question of: "Why does Wall Street Matter?" So far eight CEOs have signed on to participate, and the first video has been completed. We will release one video per month starting in the fall.

Lastly, on June 20, we will again participate in the popular "Night at the Museums" program, which is part of the River to River Festival. There will be free admission and tours of our Museum from 4:00–8:00 p.m. It is a great way to view the exhibits after hours, and an opportunity to bring friends and colleagues who may never have visited. Current exhibits include "For the Love of Money: Blacks on US Currency," "Alexander Hamilton: Man with a Plan," "America in Circulation: A History of US Currency Featuring the Collection of Mark R. Shenkman" and "Out of the Vault: Highlights from the Museum's Collection." If past years are any indication, this will be a very festive evening. We hope to see you there. $

Elsa Ruiz

Under Development Director Jeanne Driscoll's leadership, the Annual Gala has grown substantially, from raising $500,000 in 2008 to $1.25 million in 2017 to support the Museum's educational mission.

MAY 3 1999 The Dow Jones Industrial Average closes above 11,000 for the first time, just 24 trading days after breaking the 10,000 mark.

MAY 12 1933 President Franklin D. Roosevelt signs the Agricultural Adjustment Act in an attempt to ease the poverty experienced by farmers during the Great Depression.

MoAF Development Director Jeanne Driscoll Retires After 10 Years of Service

This Spring, the Museum's long-time Director of Development, Jeanne Baker Driscoll, retired after serving in that position for the past 10 years.

Jeanne joined the Museum in February 2007, just as the institution was in the midst of moving to its current home at 48 Wall Street. Among her major achievements was the creation of the Museum's Annual Gala, including the introduction of the Whitehead Award, which is the focal point of that event.

In 2007, Jeanne approached John Whitehead with the concept for an award honoring leaders in the financial sector who have also distinguished themselves in public service, and he agreed to have it named for him. The Whitehead Award was announced at the Museum's inaugural Gala in 2008 and has been presented each year since then to honorees including Paul Volcker, Bill Donaldson, Bill Harrison, David Rubinstein and Lawrence Summers. The Gala has grown substantially since its inception — in both attendance and financial support — and it currently provides more than $1 million in funding annually to support all aspects of the Museum's educational mission.

Photo: Elsa Ruiz

Jeanne Baker Driscoll (right) with Vice Chair Andrea de Cholnoky.

In addition to her work on the Gala, Jeanne created tiered corporate and individual membership programs, including the implementation of NARM (North American Reciprocal Museum Association) benefits. She also instituted the Museum's planned giving program, called the Futures Society.

"It has been a real privilege to spend the last decade of my career at the Museum, where I have had the advantage of working with such a wonderful staff and board," she said.

In her retirement, Jeanne plans to enjoy more time traveling and spending time with her friends and family. She will also remain an active board member of the Watershed Center for Ceramic Arts, which is based in Newcastle, Maine.

"We have a small staff, and that has meant we have all bonded closely," said David Cowen, president of the Museum. "While we will miss one of our family members who is retiring, we wish Jeanne the very best and thank her for an incredible 10 years of dedication."

Until a new Director of Development has been appointed, all development-related inquiries should be directed to Mindy Ross, Director of External Relations, at mross@moaf.org. $

UPCOMING EVENTS

May 18	Walking Tour: Panics and Crashes. 11:00 a.m. – 12:30 p.m. $15 includes admission to the Museum and the Lunch and Learn.
May 18	Lunch and Learn Series: Brian Patrick Eha on "How Money Got Free: Bitcoin and the Fight for the Future of Finance." Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. $5 includes Museum admission; members and students free.
Jun 10 & 14	Walking Tour: History of Wall Street. 11:00 a.m. – 12:30 p.m. $15 includes Museum admission. The June 14 tour also includes Lunch and Learn admission.
Jun 14	Lunch and Learn Series: Robert Johnson and Alexander Heffner on "The Dual Pillars of American Finance and Democracy." Conversation followed by Q&A. 12:30 – 1:30 p.m. $5 includes Museum admission; members and students free.
Jun 20	Night at the Museums. FREE admission to the Museum of American Finance and all members of the Downtown Culture Pass. 4:00 – 8:00 p.m.
Jul 12	Robert Wright on "TBD," in partnership with the Alexander Hamilton Awareness Society. 2:00 – 3:00 p.m. Free and open to the public.

All events are held at the Museum (48 Wall Street, NYC) unless otherwise noted.
For more information or to register online, visit www.moaf.org/events.

JUN 21 1949 Georgia Neese Clark becomes the first woman to be appointed Treasurer of the United States. Since then, every US Treasurer has been a woman.

JUN 28 1934 President Franklin D. Roosevelt signs the Act creating the Federal Housing Administration, which includes the 30-year self-amortizing mortgage.

MUSEUM OF AMERICAN FINANCE 2016–2017 DONORS ($1,000 AND ABOVE)

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► For more information about supporting the Museum, please contact Mindy Ross at mross@moaf.org.

**Listings in bold reflect Benefactor level donors.*

JUL 2 1890

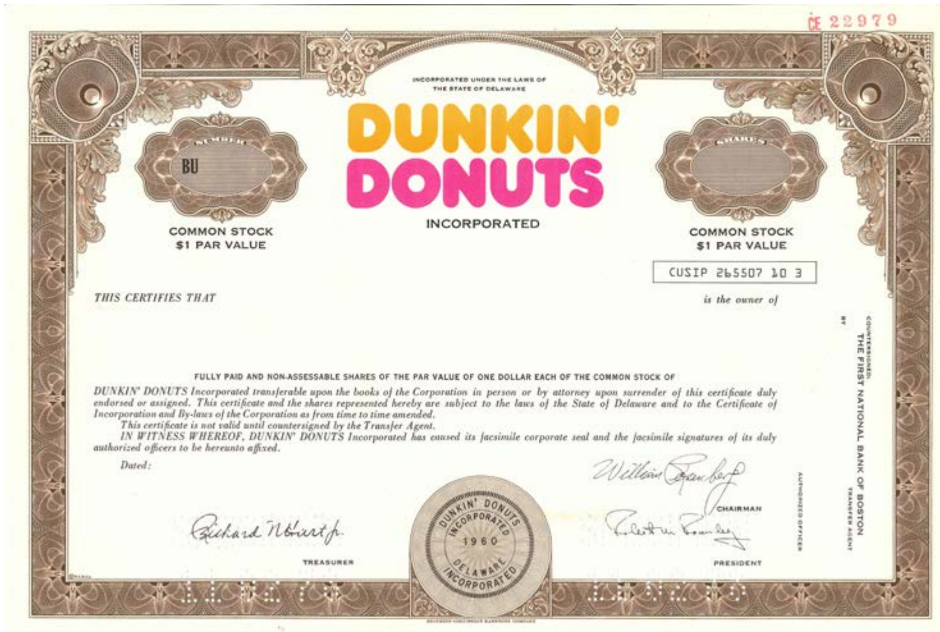
In a backlash against the monopolistic excesses of the "robber barons," the Sherman Anti-Trust Act becomes law. The Act authorizes the US Department of Justice to break up giant monopolies.

JUL 6 1785

Congress declares that "the money unit of the United States of America be one dollar."

Recent Acquisition: 1978 Dunkin' Donuts Certificate

By Sarah Poole, Collections Manager



NEXT TIME YOU STEP OUT for a fresh cup of coffee, stop by the Museum to see one of our newest acquisitions: a 1978 Dunkin' Donuts specimen common stock certificate. The certificate features the brand's iconic orange and pink logo and the printed signature of William Rosenberg, the company's founder.

Rosenberg opened his first donut shop, called "Open Kettle," in 1948 in Quincy, Massachusetts. Inspired by how customers would dunk their doughnuts in their coffee, the restaurant was renamed "Dunkin' Donuts" in 1950. Rosenberg established the goal to "make and serve the freshest, most delicious coffee and donuts quickly and courteously in modern, well-merchandised stores." The founder sold his first franchise in 1955 and helped establish the International Franchising Association in 1960. The chain's first international location opened in Japan in 1970 and its 1,000th US location opened in 1979.

Dunkin' Donuts continued to grow, hitting 2,000 US locations in 1990 and rapidly opening 1,000 more over the next two years. Dunkin' also expanded its product offerings as its presence increased. Munchkins (donut holes) were introduced in 1972 and muffins in 1978. Hazelnut and French Vanilla coffees made their debut in 1995, and the company starting selling bagels in 1996. 1997 saw the introduction of the Coffee Coolatta and breakfast sandwiches. In 2000, its 50th anniversary year, Dunkin' Donuts opened its 5,000th worldwide location in Bali, Indonesia and introduced hot chocolate and the Dunkaccino.

Dunkin Brands, the parent company of Dunkin' Donuts, was acquired by Bain Capital, The Carlyle Group and Thomas H. Lee Partners in 2006. Dunkin Brands Group (DNKN) went public on the Nasdaq stock market on July 26, 2011. The company offered 22.25 million shares priced at $19 per share. The price soared 46% in the first day of trading, closing at $27.85 per share. DNKN became independent of the three private equity firms in July 2012 through a $500 million stock buyback.

Since the mid-2000s, Dunkin' Donuts has partnered with other corporations to increase the reach of its brand and products. Dunkin's Original Blend and Decaf Coffees became the official in-flight coffees of JetBlue in 2006, and the company partnered with Proctor & Gamble, Hess Corporation and Sara Lee in 2007 to sell Dunkin' Donuts coffee at various retail outlets and non-traditional foodservice locations. In 2010, the Dunkin Donuts bake shop opened at the Culinary Institute of America and the Dunkin' K-Cup coffee pods debuted in 2011.

Dunkin' Donuts entered the mobile applications market in 2013 with the Dunkin' Mobile App. A year later the brand introduced the DD Perks Rewards Program, offering loyalty incentives to consumers who use the brand's app or gift cards for payment. The DD Perks program has grown to include 6.6 million members. As of 2017, Dunkin' Donuts has received a number one ranking for customer loyalty in the coffee category by Brand Keys for 11 straight years.

The motto "American Runs on Dunkin'" was introduced in 2006 and still rings true today. As of May 2017, there are 12,000 Dunkin' Donuts restaurants worldwide with 8,800 in the United States. The company serves 1.8 billion cups of coffee and 2.7 billion donuts and Munchkins annually. At the very least, the writing of this article was fueled by Dunkin'! $

JUL 11 1986 Fannie Mae offers the first issue of stripped mortgage-backed securities through Goldman, Sachs & Co.

JUL 29 1956 President Dwight D. Eisenhower creates the interstate highway system, which will be built over four decades at a cost of $130 billion.

JUL 30 1965 President Lyndon Johnson signs Medicare into law.

Risk Management on the Range

By Brian Grinder and Dan Cooper

Bill Grinder walked out of the bank, hat in hand, with a heavy heart. He had just lost his ranch south of Buffalo, Wyoming, where he had lived since his youth. The banker refused to loan him the money needed to meet operating expenses for the coming year. It was 1939. Bill and his father, Edward, had weathered the worst of the Great Depression only to lose it all just as things were beginning to turn around. "How," he wondered, "would he tell his wife, Anna? Where would they go? What would happen to them and their two small children, Edwin and Miriam?"

This was the second time the Grinder family had lost a ranch. In 1910, their ranch near Marquette, Wyoming literally went under water with the completion of the Shoshone Dam.[1] Bill was nine years old, and his brother Sam was six when the water rose and submerged the log buildings on their ranch. The federal government paid them for their land,[2] and the family set off for the Nebraska Sandhills to start over. After three years, they decided to move back to Wyoming and settled in the Buffalo area.

There were no safety nets for a Wyoming rancher in the 1930s, no social programs for failed ranchers or their families. All Bill had left to his name after he lost the ranch was a string of saddle horses. He eventually found a cabin near Boulder, Wyoming where he and his family could stay rent free, but he needed to find a way to get his horses there. Trucking them was out of the question; there was simply no money for that. So Bill and Don Rogers, a family friend, saddled up their horses and trailed the herd a distance of about 300 miles, crossing two mountain passes, to get them to their new home. The horses were sold off over the next several months to pay for living expenses until Bill could find work as a ranch hand on some of the area's larger spreads.

The 1940 Census for the unincorporated town of Boulder, Wyoming indicates that neither Bill nor his 71-year-old father was working or seeking work. Under the heading "Occupation, Industry, and Class of Worker," the Census form indicates that the families surveyed both before and after the Grinders owned their own ranches and were engaged in ranching as an occupation. Under the Grinder family, all of the boxes under this category are ominously empty.

The Census also identifies Edward Grinder as the head of the household with three generations living under the same roof. There was no Medicare at that time, and Social Security was only about five years old. It was common for families to take care of their elderly parents and grandparents at home. Any sort of insurance, not to mention something as extravagant as long-term care insurance, was out of the question for most rural folks.

Bill eventually found work as a ranch hand on several of the larger ranches in the area, such as the Tanner Ranch, the Quarter Circle 5 Ranch and the Maytag Ranch. The owner of the Quarter Circle 5 Ranch was married to a descendant of blue jean magnate Levi Strauss, and the Maytag Ranch was a fishing playground for Lewis Bergman "Bud" Maytag, son of the founder of the Maytag Washing Machine Company.

In her book, *Rough Breaks: A Wyoming High Country Memoir*, Laurie Wagner Buyer captures the essence of what Bill Grinder and other local ranchers have long felt about wealthy absentee ranch owners. Mick Buyer, her ranch boss and future husband, asked her "…to think about the fact that he was the only working-class man on that section of the Green River. Lowell Hansen at the Flying A owned Jackrabbit Bus Lines. The Carney family, flanking the O Bar Y on one side, owned Superior Graphite, and flanking us on the other was Jack Schwabacher from the Levi-Strauss family. The Bar E Bar, the Black Butte and the Quarter Circle 5 were working ranches, but they were run by foremen, not by the absentee landowners, who came only during hunting season or for part of the summer… the Carneys and Jack Schwabacher lived most of the time in other states. They had other businesses. They were not dependent on ranch income for their livelihoods. In fact, they used the losses on their ranches as tax write-offs."

In contrast, Mick explained, "…the Tylers, Alexanders and Papes were multigenerational families working ranches in Sublette County, and every last one of them was struggling to make ends meet... If they were not battling the weather, low cattle prices, high feed prices and exorbitant interest rates to buy equipment or take out an operating loan for another year, they were struggling to put kids through college, pay health-care costs, get reliable hired help or keep their marriages together."

Bill didn't mind working for these wealthy big city invaders, as long as they hired ranch managers who knew what they were doing. While he loved the solitude and freedom of the great outdoors, Bill also enjoyed people. He was a great storyteller and many of these out-of-towners, such as Mrs. Schwabacher, loved his stories.

Ranch hands did not receive benefits, such as health insurance or vacation pay. Medical facilities were rudimentary. The nearby town of Pinedale was lucky if it could find a doctor who was willing to move to that remote part of the world and stay for a few years. The nearest hospital was about 100 miles away in Rock Springs.

Bill never went to the dentist or learned good dental hygiene as a kid, but as he grew older, years of neglect eventually took its toll. By the early 1950s, Bill's teeth had decayed to such an extent that they were having an adverse effect on his overall health. He reluctantly agreed to a trip to the hospital to have all his teeth pulled, but since he couldn't afford to buy dentures, he remained toothless for the rest of his life. This could have been tough for a beef-eating ranch hand, but Bill didn't seem to have any trouble downing a steak.

In the fall of 1953, Bill's son Edwin became the first member of the family to

Courtesy of the Shoshone Irrigation District

E.H. Grinder Ranch on the Shoshone Reservoir site, Wyoming, December 14, 1908.

go to college. He chose to attend Black Hills Teachers College in Spearfish, South Dakota to study business.

The upcoming deer season prompted Edwin and fellow students Jim Parke and Billy Hilton to jump into Jim's 1948 Oldsmobile 88 and head up Spearfish Canyon to scout out good hunting areas. On the way back, Jim took a curve too fast and lost control of the car. The Olds left the road and crashed over a 20-foot embankment. Both Jim and Edwin suffered critical back injuries and spent several weeks in the local hospital recovering. The hospital bills could have easily ruined Bill and Anna's finances. Fortunately, Jim's father had a good auto insurance policy that covered all their son's medical expenses. The accident, however, put a damper on Edwin's college career, and while he did return to college after recovery, he never completed his business degree.

As he grew older, Bill's health problems increased. He suffered from stomach cancer and endured two surgeries to deal with the malady. He was also a heavy smoker, which contributed to his decline. On the night of February 5, 1960, after a hard day's work on the Quarter Circle 5 Ranch, Bill's weary heart finally gave out. He was 58.

There was no life insurance to provide for Anna and her teenage daughter Glenna. Social Security benefits yielded $150 to pay for funeral expenses, and a contribution from the Schwabachers helped pay for additional funeral costs. Anna and her daughter moved to Pinedale, where Anna found work at a local business while Glenna babysat to contribute towards the family finances.

Bill Grinder was my grandfather. I was only five months old when he died, so I never knew him. Despite the financial hardships he suffered, he loved life on the ranch, and he loved to ride horses. According to his daughter Glenna, "He just fit in the saddle" and "was at ease in there, like a rocking chair." Money didn't mean much to him. He was happy as long as he was outdoors riding fences or tending livestock. He found joy in Wyoming ranch life.

» *continued on page 38*

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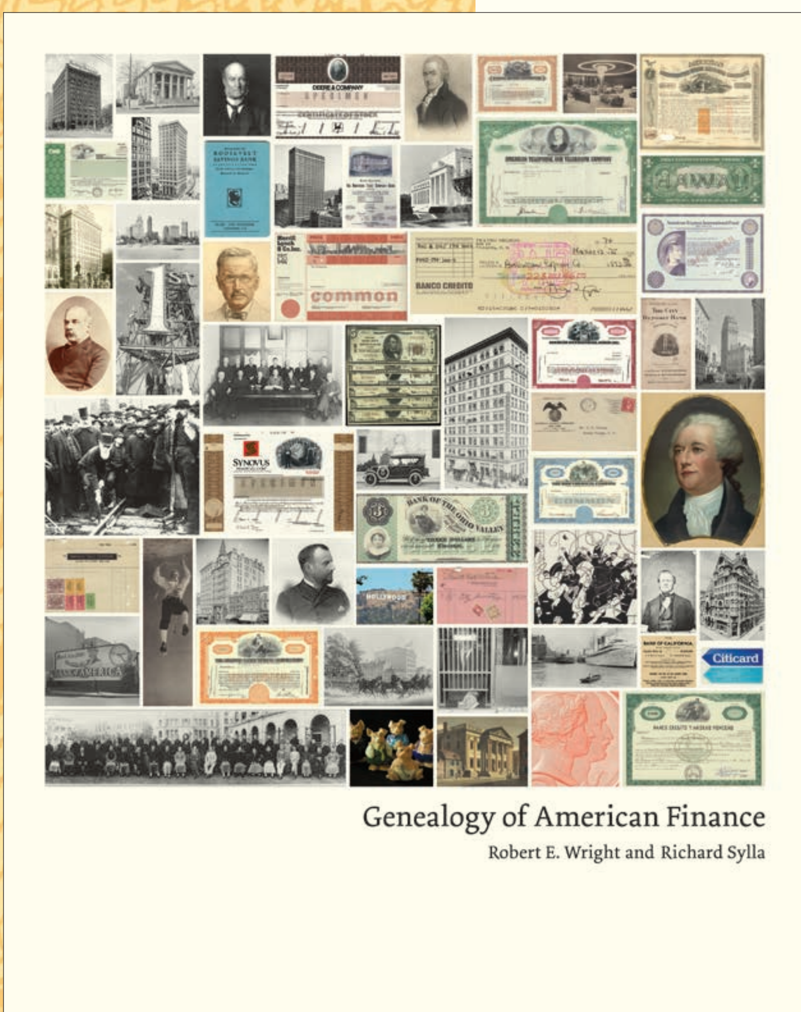
www.moaf.org/newbook



Genealogy of American Finance

By Robert E. Wright and Richard Sylla

Foreword by Charles M. Royce

> "*Genealogy of American Finance* is a treasure trove of information on American banking and its history, in an unusual — and unusually useful — format."
>
> — *John Steele Gordon, author of* Empire of Wealth

An immersive history of 50 major American banks and their transformation of the nation into a leading world power.

In this gorgeously illustrated hardcover book — published by the Museum of American Finance and Columbia Business School Publishing — readers learn how 50 financial corporations came to dominate the US banking system, shaping the nation's political, social and economic growth along the way. A story that spans more than two centuries of war, crisis and exciting promise, this account reminds readers that American banking was never a fixed enterprise but has evolved in tandem with the fits and starts of the country. A key text for navigating the complex terrain of American finance, this volume draws a fascinating family tree for projecting the future of a nation.

MU$EUM OF AMERICAN FINANCE

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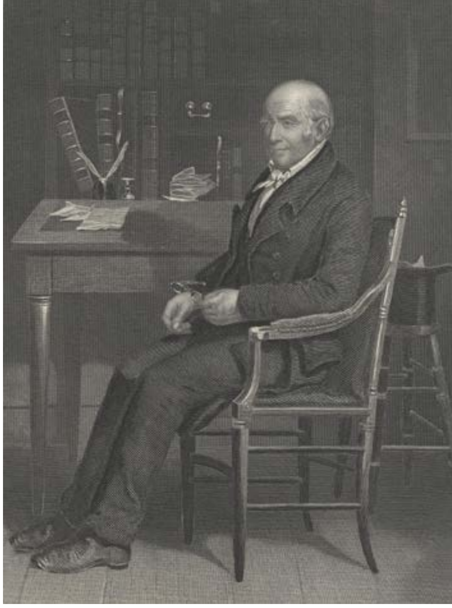

STEPHEN GIRARD

Early American Entrepreneur, Financier, Banker and Businessman

By Clyde A. Haulman

In the early phases of the War of 1812, prospects for the new nation were not good. Despite several exceptional American naval victories, the British were striking at will in the Old Northwest and tightening their naval blockade on the East Coast. Napoleon's disastrous march into Russia meant that additional British military assets were likely to be available for the American war. After a decade of fiscal frugality with little expenditure on the military and defense, the US government succeeded in getting a $10 million loan in March of 1812 — just as war loomed with Britain. But it was clear that with no new domestic taxes and, in spite of increased duties, no significant revenue stream from customs as the blockade closed down trade, the war effort was in trouble.

In March 1813, Secretary of the Treasury Albert Gallatin, who had presented Congress with information about the state of the nation's finances earlier in December, requested an additional loan of $16 million. Given the risks lenders perceived, when the books closed subscriptions fell well short of the total. With the federal government facing a fiscal crisis, Gallatin turned to a small group of leading businessmen — what economic historian Donald R. Adams, Jr. called "undoubtedly the first real underwriters' syndicate for the purpose of marketing government stock."

Meeting in Philadelphia on April 5 in response to the request for proposals to cover any remaining portion of the loan, Stephen Girard, the Philadelphia merchant and banker; John Jacob Astor, a wealthy New Yorker; and David Parish, son of a Hamburg banker who previously had acted as an agent for Girard, indicated they would divide the unsubscribed $10 million among themselves. Girard and Parish together took $8 million and Astor took $2 million. The terms of their offer were slightly more advantageous to the government than those of the initial proposal, and once their offer became known, more than 100 investors agreed to take parts of the Girard-Parish commitment. When it all shook out, Girard had loaned the government some $2.5 million, including his coverage of most of Parish's portion.

Three circumstances combined to enable Girard to play such a significant role in saving the Treasury loan of 1813 and, thereby, securing the war effort and federal government operations. First was his successful business enterprises that had placed him among the wealthiest of American entrepreneurs in the first decade of the 19th century. Second was the closing of the Bank of the United States. Third was a loophole in Pennsylvania banking legislation regarding private banks. Perceptively seeing opportunities and new directions for his business enterprises, Girard acted decisively to enhance his own position and wealth, as well as aid his adopted nation.

Arriving in Philadelphia in June 1776, Girard, having achieved success in coastal trading, quickly began the mercantile operations that would grow dramatically over the next 30 years. Capitalizing on the opportunities provided by the French entry into the Revolution and his own industry and frugality, Girard prospered and spread his networks more broadly. Aided by his expanding fleet of vessels, particularly the famous philosopher ships — the *Helvetius, Montesquieu, Rousseau* and *Voltaire* — Girard extended his trading empire to China and India, South America and the Caribbean, Russia and, most profitably, Western Europe.

By the middle of the first decade of the 19th century, Girard grew increasingly concerned about the viability of the American neutrality that enabled him and other merchants to make enormous profits in the European carrying trade. With the imposition of the Embargo Act at the end of 1807, Girard began taking steps to secure his European assets then spread among a number of trading centers across the continent. Consolidating his wealth in London using his British correspondent Baring Brothers and taking advantage of favorable exchange rates, over the next four years Girard succeeded in securing his capital and returning it to the United States.

In 1807, Girard sent a trusted employee to begin consolidating his European assets. In 1810, he authorized David Parish as his agent and soon sent two other Philadelphians to assist. Moving assets to London, while at times difficult and not without risk, proceeded throughout the period 1808–1812. However, having substantial balances in London, even with a firm that Girard trusted as much as Baring Brothers, faced significant uncertainties as the continental war ebbed and flowed and economic and political relations between the United States and Great Britain continued to deteriorate. Thus, Girard sought to move his wealth to the United States by purchasing goods for import to the United States, as well as by financial transfers in the form of purchases of US government

stocks or shares of the Bank of the United States. Each of these faced significant uncertainty and risk.

Goods shipped from the European continent to the United States were subject to capture by the British Navy, while British goods shipped to the United States were in danger of violating bans on importation. In 1811, for example, Girard was able to send four of his ships to the Baltic and have them return to Philadelphia full of profitable cargos. That same year, Girard's agent in London had used consolidated funds to purchase a cargo of British goods to be shipped to Philadelphia in Girard's ship, the *Good Friends*.

Originally bound for Rio de Janeiro, Girard diverted the ship to Amelia Island, then under Spanish control, believing that the United States ban would soon be lifted and the goods could be brought to Philadelphia. While the *Good Friends* was anchored off Amelia Island, a coup occurred and the island came under United States control. With a letter from the commanding General, the ship sailed for Philadelphia believing all was well. Entering the Delaware River, the *Good Friends* was stopped by US customs and charged with violating the ban on importing British goods. While the ship and cargo were soon released following a favorable court decision, Girard faced continued claims by the government that were finally settled in 1819 following lengthy litigation. This clearly demonstrated the liability involved in moving assets from Britain in the form of goods.

Because of the risk and uncertainty of transferring his wealth as cargos, Girard as early as 1808 began considering alternatives and ultimately instructed Baring Brothers to purchase US government stocks and shares of the Bank of the United States. Despite the dangers — a war with Britain would mean additional borrowing by the government with possible adverse effects on stock prices while the failure of the effort to re-charter the Bank could mean significant losses to shareholders — Girard proceeded with the purchases. In 1811, almost 60% of the assets returned to the United States were in the form of government stock and Bank shares.

A second element critical to placing Girard in a leading role regarding the War Loan of 1813 was the demise of the First Bank of the United States. Chartered in 1791 for a 20-year period, the Bank had grown into a true central bank controlling the notes issued by state banks, ensuring a stable market for government bonds, and lending to the government when needed. In addition, its multiple branches greatly facilitated the commercial functions of the emerging national economy. However, long standing opposition from Jeffersonian Republicans, ongoing questions of constitutionality, and opposition from state banking interests combined in 1811 to defeat efforts to re-charter the Bank. Despite his strong Jeffersonian leanings, Girard was a leading proponent of re-chartering. He saw the wide spread impact of the Bank on government fiscal operations, was keenly aware of its stabilizing impact on state banks, and, most importantly for him, saw how its system of branches enhanced his mercantile operations.

As the single largest holder of Bank stock, Girard would have profited from the re-charter. However, he knew that his Bank stock holdings were still quite valuable given that each share would recover $400 at the Bank's closing and that with war and future borrowing on the horizon, the alternatives of government stocks would likely fall in value, which they did. With time running out as efforts to obtain a charter for the Bank first in Pennsylvania and then in New York failed, Girard was poised to strike. Purchasing the Bank's neoclassical building and virtually all its furnishings on May 9, 1812, just two months after the Bank ceased operations, Girard opened his own banking operation nine days later.

A third factor that enabled Girard to aid the government in its 1813 loan was a loophole in the 1810 Pennsylvania banking law regarding private banks. Girard exploited the gap to its fullest in opening The Bank of Stephen Girard. Unable to conceive of any but a conglomeration of individuals putting together the capital needed to open a bank, the legislation specified only that "any unincorporated association of persons" was prohibited from creating a bank and undertaking banking functions. Girard, as an individual, did not meet the standard of the prohibition.

Operating on the advice of two prominent Philadelphia lawyers, Jared Ingersoll and Alexander J. Dallas, and with assets that placed him among the wealthiest if not the wealthiest American of the time, Girard's Bank commenced operations on May 18, 1812. In a letter to the Governor of Pennsylvania on May 23, Girard informed the state of his action.

Opening a private bank in the aftermath of the closing of the Bank of the United States was one thing, ensuring its success was another. In the face of strong opposition from existing banking interests in Philadelphia and beyond, Girard's skills as an entrepreneur, negotiator, financier and manager would be tested. But, as with virtually all of his business ventures, Girard succeeded magnificently.

Girard's first moves included hiring a staff headed by George Simpson, Cashier of the now closed Bank of the United States, to direct operations of the new bank and to supervise the other employees. Beginning with capital stock of over $70,000, Girard quickly added additional assets to it portfolio and by year's end the total stood at over $1.3 million. This placed The Bank of Stephen Girard at a level comparable to the largest chartered banks of the day.

Although the Philadelphia chartered banks quickly refused to accept Girard's Bank's notes for payment or deposit, this substantial capital position enabled his


Exchange £1150. Sterl. (263) Philadelphia 19th Jany 1810.
At Sixty Days Sight pay this Third Bill of Exchange First Second & Fourth not paid to the order of Samuel Greg & Peter Ewart the Sum of Eleven Hundred Fifty Pounds Sterling Value received of S. Stones and place the Same to account
Messrs. Baring Brothers & Co. London.
Stephen Girard

Collection of the Museum of American Finance

Sight draft signed by Stephen Girard, January 19, 1810.


Main building, Girard College, 1901.

Library of Congress

Stephen Girard was born in Bordeaux, France in 1750. He immigrated to Philadelphia in 1776 and died there in 1831. In addition to his mercantile and financial activities, Girard is remembered for his critical role during Philadelphia's yellow fever epidemic of 1793 that killed some 10% of the city's population. Girard managed the temporary hospital at Bush Hill and directly cared for many of the ill. His most lasting legacy was bequeathing the vast majority of his fortune to found Girard College, providing free education for Philadelphia's orphans. His gift continues to benefit Philadelphians to this day.

bank to meet challenges in the form of specie calls from several rival chartered banks. The calls were based on Treasury drafts drawn on Girard's Bank. He immediately countered with specie calls on those banks using their notes his institution had accumulated. Girard's action quickly brought this form of opposition to an end. The strong capital position also instilled confidence in the stability of Girard's Bank among the business community. Further, unlike British and European merchant banks, Girard maintained strict separation between his mercantile enterprises and his banking operations, thus ensuring transparency and enhancing the bank's reputation.

Girard further solidified his banking institution by quickly establishing a network of correspondent banks in major cities, in inland Pennsylvania, and with Baring Brothers in London This was further enhanced by establishing an arrangement with the Trustees of the former Bank of the United States whereby in exchange for maintaining their account with his bank it would be the institution that received and deposited the Trustee's payments as they wound down the closed institution.

Establishing relations with the Treasury proved much more difficult. Despite Gallatin's promise in the 1812 negotiations that he would recommend that banks holding public deposits would accept Girard's Bank's notes and they would not make unnecessary specie draws from each other, this did not happen. It took until 1815 when in response to Treasury's difficulties in transferring funds from Southern banks to make payments in the Northeast that the issue was resolved. Girard offered to use his correspondent relationships to collect and credit Treasury notes to his account in the Bank of South Carolina and to credit an equal amount to the Treasury in his Philadelphia bank. This and Girard's agreement to accept Treasury notes with interest accrued as if they were bank notes led Treasury to make Girard's Bank a depository for federal reserves and place it on par with chartered banks.

The process of getting Girard's Bank established and accepted faced one more obstacle — the battle over unchartered banks in the Pennsylvania legislature. Attempts to outlaw private banks in the 1813 session passed both houses of the legislature by one vote but failed when vetoed by the governor. Renewed efforts succeeded in 1814 despite the governor's veto, but when Girard's name appeared on the list of illegal institutions at the beginning of 1815, no enforcement actions were taken. Following a sharp exchange with the state's banking authorities, Girard was removed from the list. Here, the magnitude of Girard's wealth and the stability and reputation of Girard and his Bank likely were critical.

Girard's important contribution to the success of the 1813 Treasury loan enhanced his standing as a patriot and a financial anchor for the nation. With his banking institution established and accepted, Girard was poised to be an ongoing force in the financial world of the new nation. His role in the specie suspension of 1814, his forceful advocacy for the Second Bank of the United States, his large ongoing role in Treasury financing and his allowing The Bank of Stephen Girard to serve a central reserve role for inland Pennsylvania banks (thus enabling their notes to circulate at par in Philadelphia), put Girard at the forefront of financial sector developments in Philadelphia and the nation for two decades. Even more important was the critical part Girard played as market capitalism began its transformation from a primarily mercantile focus to the industrial capitalism that would dominate the country and the world. His financing of private ventures particularly in the area of transportation — navigation and railroads — and coal provided a model for the investment bankers who would be so important for economic development later in the 19th century.

By the time Girard died in 1831, he and his bank had played a critical and unique role in transforming Philadelphia and the nation at a pivotal time for the emerging national economy and its financial system. $

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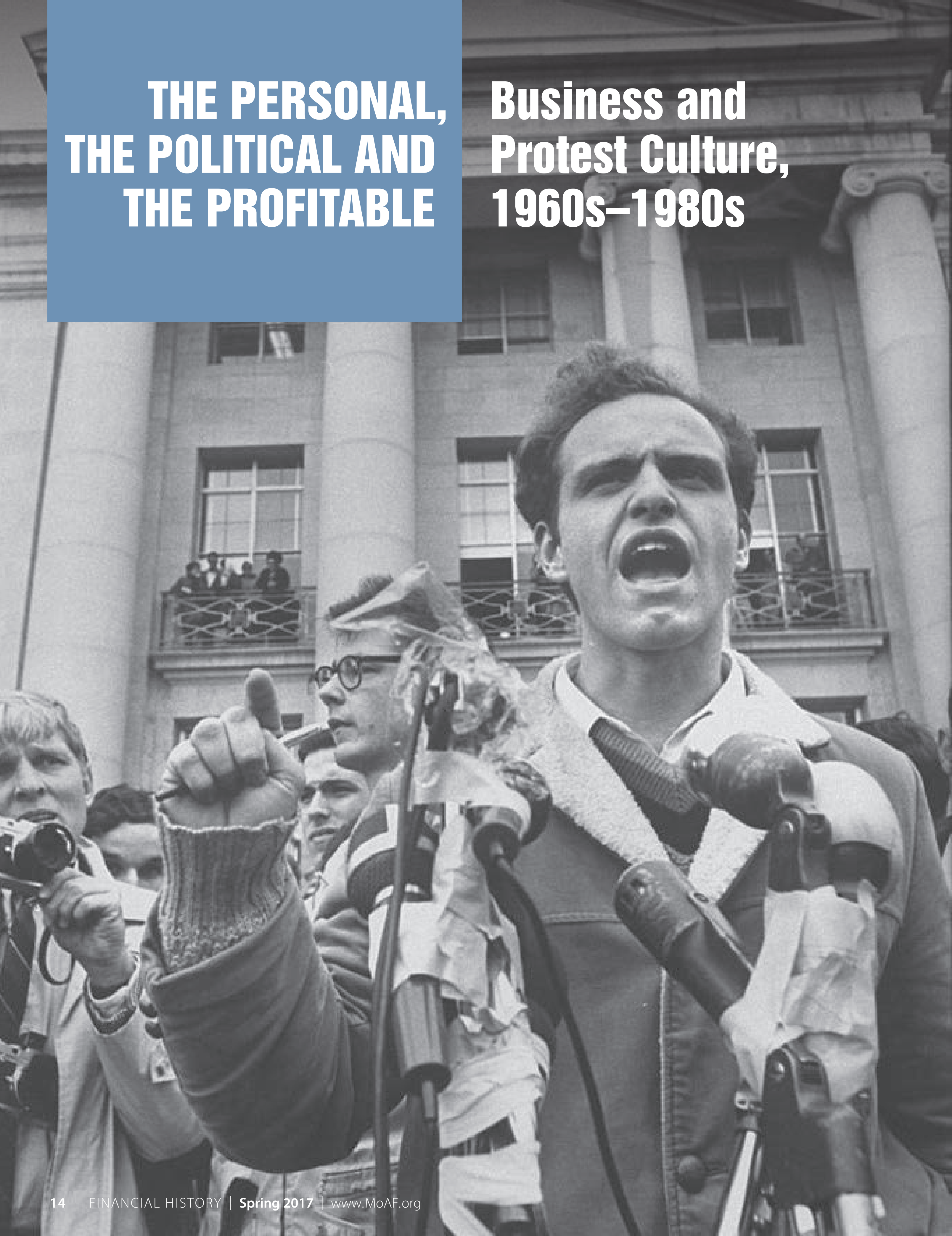
THE PERSONAL, THE POLITICAL AND THE PROFITABLE

Business and Protest Culture, 1960s–1980s



By Benjamin C. Waterhouse

In the fall of 1964, students at the University of California at Berkeley launched a series of sit-ins, walk-outs and rallies to protest the university's policy prohibiting political activism on campus grounds. Young people, joined by like-minded allies in the area, clashed with police and challenged the authority of university administrators and the political establishment that ran the university system. Berkeley's "free speech movement" rocked the campus and drew national attention.

Although university leaders eventually modified their position on campus speech, the firestorm of activism persisted and inspired national protests in the years to come. The critiques that the Free Speech Movement leveled at the University of California extended far beyond specific policies, reflecting instead a fundamental — and generational — challenge to the power structure that defined American society.

Specifically, students called out their educational leaders for complicity in an anti-democratic, dehumanizing corporate machine that compelled conformity. At a campus rally, Berkeley student and civil rights activist Mario Savio gave voice to the sense of oppression and helplessness many young people felt in the early 1960s.

"We have an autocracy which runs this university," Savio declared. Student leaders had asked whether Berkeley's president, Clark Kerr, had convinced the university's Board of Regents to liberalize the school's policies on political activism. Savio continued: "And the answer we received — from a well-meaning liberal — was the following: He said, 'Would you ever imagine the manager of a firm making a statement publicly in opposition to his board of directors?' That's the answer!"

Savio seized on that comparison between higher education and the faceless, bureaucratic corporation.

"Now, I ask you to consider: if this is a firm, and if the Board of Regents are the board of directors and if President Kerr in fact is the manager, then I'll tell you something: the faculty are a bunch of employees, and we're the raw material!"

Savio's analogy — which saw the university as a corporate machine and students as raw materials who had thrown their bodies upon its inner workings — grew from a profound sense of unease over the role of business corporations in American society. Political activists in the 1960s — from civil rights advocates to anti-war protesters to more radical and often violent groups such as the Weather Underground — viewed the business corporation as an integral part of the "establishment" that crippled dissent, promoted imperialism abroad and injustice at home, and stifled free expression. Never removed from issues of war and social justice, business was at the heart of the tumult of the 1960s.

Corporate executives came to understand the very real threats to their political power, social standing and economic success that political and social unrest augured. Business leaders responded to what they believed were "anti-business" politics in the 1960s and well into the 1970s with deliberate action to bolster their support and institutionalize their influence with policymakers. Powerful businesspeople had always played an important role in national affairs, but the turmoil of the 1960s and 1970s created a particularly powerful moment of mobilization that, combined with a burgeoning conservative political movement, had long-lasting consequences for American politics.

Business and Protest in the Late 1960s

The social unrest that engulfed the United States had its roots in the civil rights struggle, whose "high phase" of in-the-streets activism peaked between the mid-1950s and the 1965 Voting Rights Act. By the late 1960s, the country had been rocked by an onslaught of public protests, riots and political assassinations.

America's official military involvement in Vietnam developed over the course of the late 1950s and early 1960s. By 1968, half a million American soldiers were fighting in Southeast Asia, where 58,000 would die before the United States withdrew completely in 1973.

The escalation of the war prompted a powerful and pointed antiwar movement in the United States, spreading from college campus "teach-ins" to historic protests and marches on the Pentagon and White House. Just as Savio had linked his opposition to Berkeley's anti-free speech policy to a larger critique of corporate culture, so too did many Vietnam War protesters draw a clear line between a war they decried as murderous and imperialistic and the business climate that nurtured it.

Invoking Eisenhower's now-famous warning about the "military-industrial complex," protesters charged that America's most successful capitalists bore responsibility for the carnage in Asia. The nation's war machine, they argued, generated military contracts for everything from ammunition and aircraft to the napalm that US bombers poured on the Vietnamese jungles and the people who lived there.

Antiwar demonstrators aimed their protests not only at the military and the government, but also at corporations whom they labeled as war profiteers. "Why…do we continue to demonstrate in Washington as if the core of the problem lay there? We need to find ways to lay siege to corporations," one activist wrote late in 1969.

On April 28, 1970, thousands of antiwar activists converged on the annual shareholder meeting of the Honeywell Corporation, an energy-oriented conglomerate that manufactured, among many other products, cluster bombs and other weapons for the Pentagon. Facing the jeers and accusations of murderous complicity from the furious crowd, Honeywell's president adjourned the meeting after only 14 minutes. Firms such as Dow Chemical Company, producer of napalm, also confronted angry protesters, especially when their corporate recruiters arrived on college campuses.

Perhaps most tellingly, anti-war protesters even targeted corporations, such as banks, that lacked any explicit connection to Vietnam but represented the entire system that put profit before people. In the winter of 1970, protesters near the University of California in Santa Barbara burned down a branch of Bank of America, whose very name, at least to the arsonists, evoked the hubris of capitalist imperialism.

Corporate and political leaders understood that the antiestablishment angst was particularly strong among young people. In recent years, historians have shown that plenty of the "baby boomers" who came of age in the 1960s were quite conservative and favored the war, the business establishment and capitalism in general, but many corporate executives at the time were convinced that generational changes were afflicting the nation's youth *en masse*. The same types of college students who, in the 1950s, headed to stable careers in middle

Mario Salvo addresses a rally at the University of California at Berkeley, 1965.

Bill Ray/The LIFE Picture Collection

Bettmann

Consumer advocate Ralph Nader testifies at a Senate hearing, 1967.

management were, by the late 1960s, committed to upending the society that had nurtured them, taking over college campuses, organizing protests and boycotts, or rejecting traditional society altogether.

At the same time, corporate executives understood the degree to which they and their businesses had become the scapegoats for dissatisfied and disaffected youth. Public approval of business as a social institution, particularly among young people, declined throughout the war-torn years of the late 1960s and early 1970s. In one commonly-cited 1973 survey of students at Oklahoma Christian University — by all counts a conservative place far from radical hotbeds such as Berkeley or Columbia — undergraduates gave businessmen the lowest ranking for ethical standards of all major groups of leaders in the country.

Business's Countermobilization

"The American capitalist system is confronting its darkest hour," one corporate executive declared in 1975. He wasn't alone. By the mid-1970s, a refrain echoed across corporate America — from top executives to small shop owners, from conservative politicians and attorneys to journalists and academics. The onslaught of social regulations, anti-capitalist culture and a struggling economy (the boom of the 1960s ended with a recession in 1970, followed by a prolonged energy crisis marked by high inflation and slack growth) meant that business was under attack. To defend their bottom lines and capitalism itself, business leaders had to strike back.

In 1971, a corporate lawyer named Lewis Powell — soon to become a Supreme Court justice — gave voice to this rising demand for a political countermobilization with a confidential memo to the US Chamber of Commerce. A well-connected attorney in Virginia and former president of the American Bar Association, Powell wrote the memo at the request of his friend Eugene Sydnor, who owned a chain of department stores and chaired the Chamber's "Education Committee."

The document, called "Attack on American Free Enterprise System," explained the widespread belief that anti-capitalist forces — from the universities to the pulpits to public-interest law firms — were waging a cultural assault on business, and that groups such as the Chamber of Commerce had no choice but to become politically active. "Business," Powell wrote, "must learn the lesson, long ago learned by labor and other self-interest groups… that political power is necessary…and that…it must be used aggressively and with determination."

Powell's memo crystallized the growing sense that collective action by business was essential. Circulated throughout the Chamber of Commerce, the "confidential" memo landed on the desks of conservative writers and public figures, and snippets from it peppered the speeches of pro-business activists. About a year after Powell wrote it, and nine months after Richard Nixon appointed him to the Supreme Court, the liberal *Washington Post* columnist Jack Anderson learned of the memo and "outed" Powell, implying that the document represented a subversive plan by high-powered businesspeople to take control of American politics. In reality, Powell's contribution was more rhetorical than conspiratorial. He put into words what many people had been saying privately for years: Businesspeople had to become more involved in national politics. But how?

In addition to holding political office, there were two primary avenues for effecting real influence in national affairs: funding political campaigns, and direct and focused lobbying. American companies dramatically expanded their use of both strategies in the 1970s.

In the early 1970s, Congress overhauled the laws governing campaign finance contributions. The federal government had regulated campaign giving to various degrees since the Tillman Act of 1907, which barred corporations and unions from donating to political campaigns on the rather explicit grounds that they were not humans. Yet both businesses and unions had found end-runs around the law, the latter by creating political action committees (PACs) as early as the 1940s. Early PACs existed on the margins of legality, and while organized labor relied on political clout to avoid trouble, corporations generally did not form them. Instead, with minor exceptions, businesspeople preferred other, less official ways to skirt the campaign finance laws. Executives, for example, routinely arranged for special bonuses to top managers, with the clear expectation that those managers would donate their windfall to the candidate of the corporation's choice.

In the 1970s, a coalition of lawmakers worked to reform the campaign finance system following the Watergate scandal. Congress created the Federal Election Commission (FEC) and a system for public campaign financing, instituted reporting requirements and limited expenditures.

In 1975, the FEC clarified that political action committees were legally legitimate, and an explosion in corporate-backed political action committees followed. Between 1974 and 1979, the number of business PACs increased ten-fold, from 89 to 950. By 2016, the FEC counted 1,621 political action committees affiliated with businesses.

In addition to engaging in campaign financing, businesses also mobilized in the 1970s by hiring talented people to represent their interests to government officials. Lobbying is an ancient profession, and corporations had a long history of paying well-connected people to sway politicians their way, but the presence of paid lobbyists followed the growth patterns of American business itself. The railroad boom of the mid-19th century, which depended on government largesse, led to an uptick in lobbying, as did industrial manufacturing in the following decades. As American companies became larger and more diversified, particularly after World War II, they became more sophisticated in their lobbying capacity. By the 1960s, most big firms had "Washington representatives" — paid permanent employees who lived in Washington and lobbied on their company's behalf.

But small and midsized firms couldn't afford permanent lobbyists. Instead, they relied on trade associations to represent the general interests of their industry. Grocery stores might join the National Grocers Association, for example. With the proliferation of trade associations in the 20th century, including such pan-industry "peak associations" as the National Association of Manufacturers and the US Chamber of Commerce, a legal conflict began to emerge. On one hand, the First Amendment protected the right to free speech and to "petition the government for a redress of grievances," as lobbyists do. On the other, the Sherman Antitrust Act of 1890 prohibited "any conspiracy in restraint of trade."

Many businesspeople worried that certain types of lobbying might push trade associations over a legal line. In the early 1970s, the Supreme Court ruled that the First Amendment speech and petition protections superseded the question of restraining trade. Those rulings gave trade associations far more latitude to represent multiple businesses within an industry, and the amount of trade association lobbying increased markedly.

Leading the charge of coordinating collaborations across companies, and sometimes across industries, were major national associations that had been around for decades. Both the National Association of Manufacturers and the US Chamber of Commerce responded to this new culture of business activism by reinvigorating themselves and broadening their activities. They expanded their political purview to include a broader array of issues — rather than just concentrating on organized labor and workplace issues, they lobbied for and against issues related to consumer protection, environmental regulation, foreign trade, tax policy and policies concerning inflation and unemployment.

A new force also emerged to unify the nation's largest and wealthiest industrial manufacturers, called the Business Roundtable. Founded in 1972, the Business Roundtable comprised approximately one hundred corporations, all of which were in the *Fortune* 500 and most of which dealt in heavy industry such as steel, aluminum, chemicals and automotive.

While the US Chamber of Commerce tried to appeal to all corners of the business world, the Business Roundtable focused on political issues that directly affected big businesses. What made the organization particularly powerful was that its members included only CEOs of those companies, not vice presidents, lawyers or professional lobbyists. When the Roundtable wanted to target a certain politician on a certain vote, it would send powerful corporate leaders — the CEO of Ford, Citibank or AT&T — to the politician's office.

By the late 1970s, the political mobilization of American businesses had begun to redirect the nation's economic policies in ways that pleased conservatives and disappointed progressives. Organizing around a commitment to free market capitalism and an opposition to social regulation, business groups lobbied successfully during a number of key legislative battles that helped stem the tide of liberal policies.

In 1978, corporate lobbyists were decisive in the defeat of legislation spearheaded by consumer activist Ralph Nader to reform the process for regulating consumer protection within the federal government. That same year, the Business Roundtable led the charge against reforms to the National Labor Relations Act, which would have improved labor unions' ability to organize workplaces and created greater oversight and transparency in employee-worker relations. By the 1980s, these groups joined with increasingly active conservative policy groups to promote tax reform, oppose environmental regulations and urge a balanced federal budget.

Despite frequent policy and strategy disagreements among conservative activists and corporate lobbyists, they shared a vital perspective: a dispositional opposition to the liberal state. By lending their organizational, financial and influential strength to legislative politics, business groups helped secure important policy victories for conservatives. $

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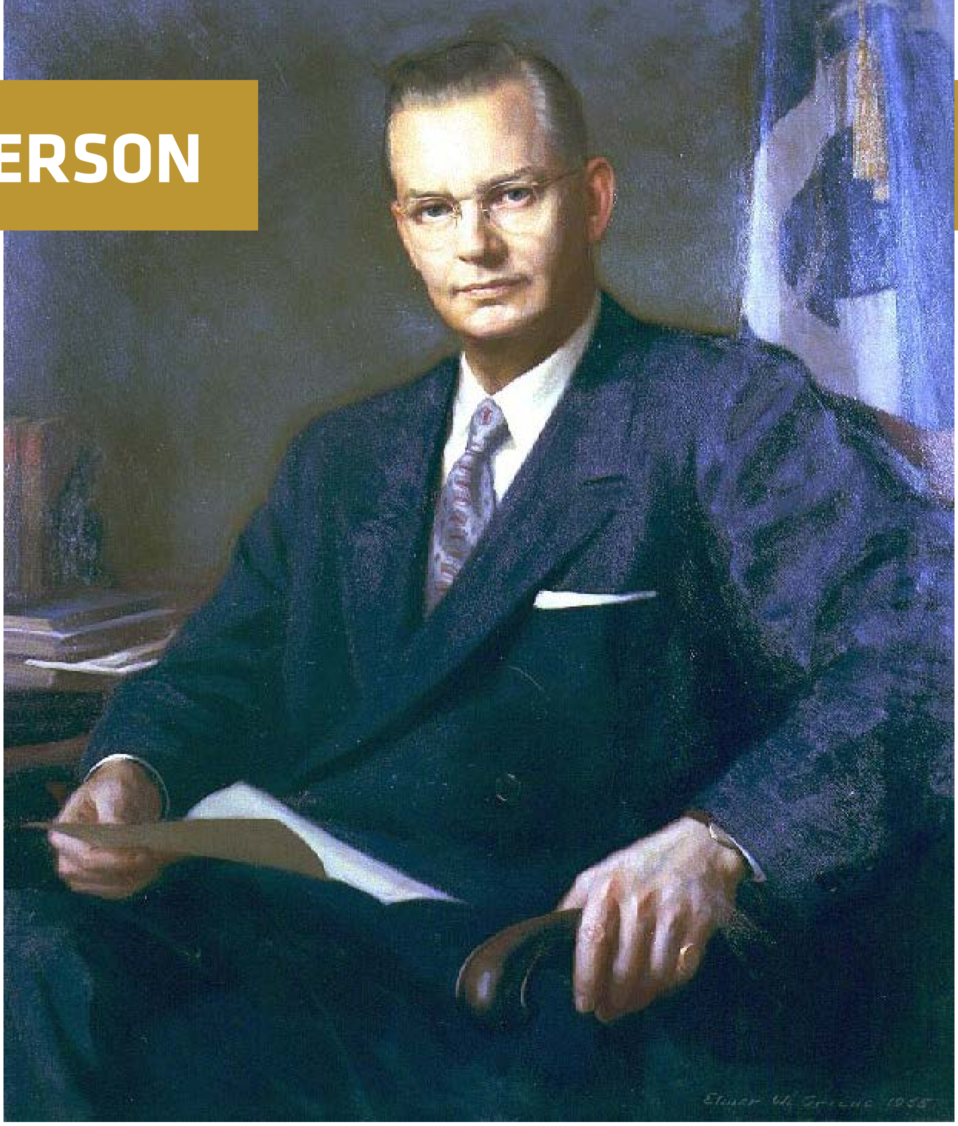
ROBERT B. ANDERSON

A Distinguished Career Gone Wrong

By Ron Hunka



Portrait of Robert B. Anderson by Elmer W. Greene, 1955.

Few Americans today would recognize the name of Robert Bernard Anderson. Yet, he was once the preferred choice of President Dwight Eisenhower over Richard Nixon to seek the Republican nomination for President in 1960. Despite his rise from humble origins to positions of great power and trust in the public and private sectors, Anderson's career ended in disgrace.

In 1910, Robert Anderson was born on a poor cotton farm in Burleson, Texas, now a suburb of Fort Worth. After graduating from Weatherford College, he became a high school teacher. Ambitious, he found a path to upward mobility by graduating from law school at the top of his class at the University of Texas in 1932. At age 23, he was elected to the Texas House of Representatives. In 1933, he was appointed assistant attorney general, and in 1934-1935 he served as Texas State Tax Commissioner (a post abolished in 1979). For the next two years, he was director of the Texas Unemployment Commission.

After his years in state government, Anderson accepted a transformational position as general counsel to the W.T. Waggoner Estate, which consisted of a vast ranch of over 500,000 acres. Second in size only to the King Ranch in south Texas, it stretched across several counties around the north Texas town of Vernon. Performing his duties in an exemplary way, Anderson later assumed responsibility for the operation of the entire $300 million enterprise upon becoming ranch manager in 1941.

This change led him into dealing with, among other things, the mineral resources of the estate. In particular, his work negotiating large oil and gas leases gained him the attention of politically well-connected leaders in Texas, who backed Eisenhower for President in 1952. Anderson soon joined them.

After Eisenhower's election, he offered Anderson the position of Secretary of the Navy, which Anderson accepted, ending his 15-year association with the Waggoner Estate. As the President's esteem for Anderson's abilities grew, Eisenhower appointed him Deputy Director of Defense in 1954. Three years later, Eisenhower brought Anderson back again, this time as Secretary of the Treasury. Remarkably, a man who had started out as a high school teacher now had his signature on his nation's currency. The fact that the IRS now fell under his supervision was to prove ironic some years later when he fell from grace.

One of Anderson's more memorable achievements as Eisenhower's Secretary of the Treasury was to broker the so-called "Treaty of the Rio Grande," a bi-partisan agreement worked out with two fellow Texans—Democratic Speaker of the House Sam Rayburn and Senate Majority Leader Lyndon Johnson — not to pass a tax cut in 1958 favored by Republicans Vice President Richard Nixon and Labor Secretary James Mitchell. Anderson felt that a tax cut "could bring huge slashes in tax revenues, in the face of a mounting deficit." From today's perspective, some would find Anderson's action far-sighted.

As Eisenhower neared the end of his second term, he confided in Anderson that in the coming presidential election he would make "the finest candidate we could have," though Eisenhower recognized that Nixon might already have the nomination wrapped up. Even if that were true, Eisenhower advised, Anderson would still make an excellent vice presidential candidate. But Anderson declined to seek either office, though he seems not to have completely articulated his reasons for doing

so. (It was established later that Anderson received treatment for alcoholism some 10 times in his life, which was likely a factor.)

When Eisenhower left office in 1961, Anderson chose to pursue private investment and banking interests in New York. Yet, during the 1960s, he also carried out diplomatic missions for his old friend, then President Johnson. One of these missions related to working on new treaties for the Panama Canal. From 1964 to 1973, he was a special ambassador to Panama.

In the 1980s, for a man with a long, distinguished career of service to the United States, Anderson's undertakings seemed to meander into unfamiliar territory. Among other things, he became an economic adviser to the Sultan of Oman and a lobbyist and consultant for the controversial Reverend Sun Myung Moon and his Church of Unification. From 1983 to 1985, from offices in New York, he became the primary agent and representative of the Commercial Exchange Bank and Trust of Anguilla in the British West Indies.

In 1983, Anderson came under investigation by federal authorities for a plot to sell arms to Iran. He was not charged, though he may have played a role.

By March 1987, Anderson's questionable activities caught up with him, and the 77-year-old former Secretary of the Treasury was indicted in New York and pled guilty to charges of income tax fraud for 1983 and 1984 and illegally operating an unregistered off-shore bank. In the years that he was charged with tax fraud, he had used his Anguilla bank to hide $79,000 in income he received as a consultant and lobbyist from the Church of Unification, as well as income from other sources.

Disparagingly, the United States attorney in Manhattan, Rudolph Giuliani, said there was "no excuse" for someone of Anderson's background and experience to have engaged in such criminal activity. He further charged that Anderson had carried out "a pattern of criminality" and that the government would seek prison time for

Cover of *Time* magazine featuring Robert B. Anderson, November 23, 1959.

him. Part of that pattern was reflected in Anderson's advertising of his bank as a "tax-free environment" with "client anonymity."

Anderson admitted in court proceedings that he had violated reporting and registration regulations. Although the bank's offices were in New York, he had not registered with authorities there. In addition, the bank also lost $4 million of its investors' funds in fraudulent oil and gas investments.

In court, Anderson, who appeared frail, told the judge that his troubles had begun with his alcoholism. Also, his wife of 52 years had died in 1987 after a long struggle with Alzheimer's that took its toll on him. He told the judge that he regretted what he had done.

Convicted of tax evasion for 1983 and 1984 and operating an unregistered bank, Judge Edmund Palmieri gave Anderson a light sentence in consideration of his previous service to his country — one month in jail, five months' house arrest and five years' probation. Disgraced, he died of complications of cancer surgery in New York in 1989 at the age of 79. $

Ron Hunka, a freelance writer who lives in Austin, Texas, has written articles for Financial History *about notorious frauds, mainly in Texas. Elsewhere, he has published stories about the history of interesting castles and monasteries visited in countries including Germany, Austria, Switzerland and Liechtenstein.*

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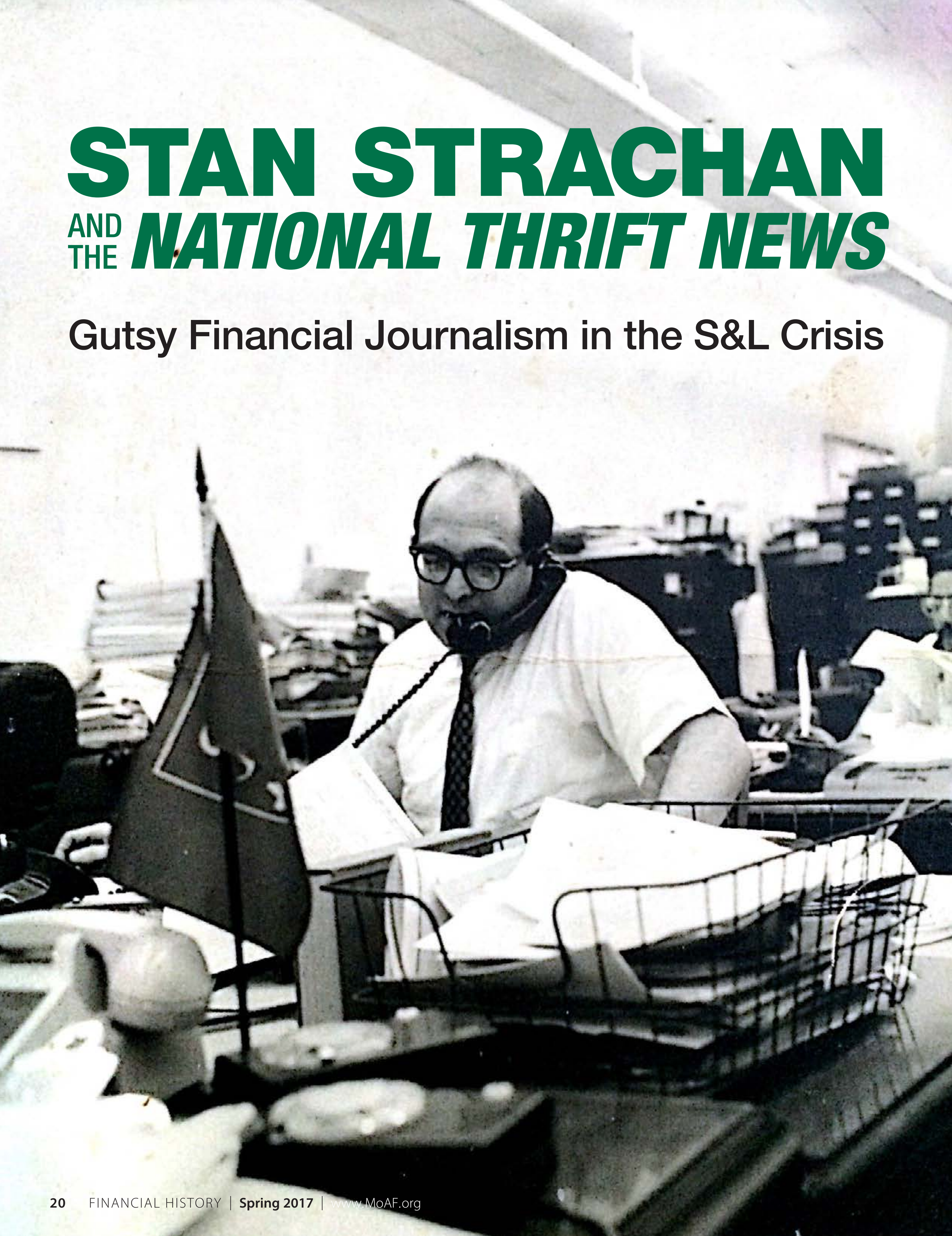
STAN STRACHAN AND THE *NATIONAL THRIFT NEWS*

Gutsy Financial Journalism in the S&L Crisis



By Rob Wells

One of the improbable tales of the savings and loan crisis involved a small financial newspaper, the *National Thrift News,* which beat giant newspaper rivals at exposing the Keating Five affair, one of the seminal influence peddling scandals of the 1980s.

This episode illustrated what a lot of Wall Street insiders already knew: that Stan Strachan, editor of the *National Thrift News,* was a force in financial journalism during this period. Strachan's scrappy trade newspaper uncovered how a notorious banker, Charles Keating Jr., got five US senators to pressure regulators to ease enforcement against Keating's Lincoln Savings. This episode — nearly two years ahead of reporting in *The Wall Street Journal* and *The New York Times* — would later be the focus of congressional hearings and cap Keating's downfall. Lincoln Savings later collapsed and cost taxpayers an estimated $3.4 billion. Keating eventually was sent to prison for 12 years on securities fraud and other charges.

This story also fit an unusual narrative about Strachan and his newspaper: it was yet another article that would anger powerful advertisers and subscribers of the *National Thrift News.* Strachan's ability to cover the industry as an insider and push to clean it up made the *National Thrift News* an unusual and important publication in business journalism. This small newspaper also influenced American finance, particularly as it highlighted corruption in the mortgage bond markets, which grew rapidly during the 1980s.

Strachan died in 1997, but this financial watchdog legacy remains relevant for today's business journalists, and journalists of all types, as the news industry tries to find its way in the age of Twitter and Facebook. He carefully walked the line between industry insider and outside watchdog, a difficult balance for any contemporary journalist. Strachan showed that smart beat reporting of companies and industries can lead to significant insights and yield investigative reporting that can serve the general public. The *National Thrift News* was ignored by larger news organizations but eventually won the recognition it deserved, not only within the genre of trade journalism, but also within the broader field of journalism. For example, it won a George Polk Award for financial reporting in 1988 for its coverage of the savings and loan crisis; the New York Financial Writers Association gave Strachan a lifetime achievement award in 1990.

This recognition was slow to come, however. *National Thrift News* was a trade newspaper, a genre of publications that cover specific industries and typically do not feature sports, entertainment or crossword puzzles. In the past, mainstream journalists have dismissed the trade press for failing to take a tough, watchdog stance in their reporting, as well as for failing to frame their journalism in the broader context of society. The limited scholarship in this field shares this critical view. James Ross wrote in *Columbia Journalism Review*, "Trade publications have long been consigned to a netherworld somewhere between journalism and public relations." In other words, trade newspapers historically have been low in the media industry's pecking order.

This lack of respect may be why Strachan and his reporters had to wait nearly two years to see any impact from their reporting about the Keating Five event. The senators were Democrats Don Riegel of Michigan, Alan Cranston of California, John Glenn of Ohio, Dennis DeConcini of Arizona and Republican John McCain of Arizona. Keating gave campaign contributions estimated at $1.3 million to the five. Major news media ignored the *National Thrift News* scoop, even though it described behavior that would lead to ethics charges against sitting US senators. At first, Strachan wrote, "Nothing happened."

It wasn't until Lincoln collapsed in April 1989 did the major papers begin reporting on Keating's efforts to get Congressional leaders to intervene in the regulatory process. By the fall of 1989, wall-to-wall press coverage made Keating a household name, synonymous with the savings and loan debacle, a banking crisis that cost taxpayers an estimated $125 billion to clean up.

Mainstream media may have ignored the *National Thrift News,* but they could have learned a lot from it. While general business news publications (those that serve both consumers and business people, such as *The Wall Street Journal* and *Fortune*) have evolved from the trade press, they are criticized for sharing the same worldview as the people they cover. Intellectual capture and excessive reliance on industry to frame what is and is not news remain significant problems for general business journalism. This was one reason why some news organizations didn't pick up on warning signs ahead of the 2008 financial crisis, noted Dean Starkman, author of *The Watchdog That Didn't Bark: The Financial Crisis and the Disappearance of Investigative Journalism*.

National news media clearly failed to sound the warning about the savings and loan crisis until it was too late, many media historians say. A 1993 federal commission named to study the savings and loan disaster, the National Commission on Financial Institution Reform, Recovery and Enforcement, wrote: "The news media were largely silent during the period when most of the damage was being done. The news media missed one of the most costly public debacles in US history."

The *National Thrift News* didn't miss the story. It had a strong following among mortgage bond traders, regulators and housing journalists in the 1980s. "They were fearless," recalled Christi Harlan, a former *Wall Street Journal* reporter who contributed to *National Thrift News* in the 1980s. "They were not afraid to take on the industry and the players who were buying subscriptions" to the paper, she added.

One of Strachan's best sources and closest friends was Lewis Ranieri, the legendary Salomon Brothers executive and pioneer of the mortgage-backed securities market. Ranieri said Strachan did not seek out to write critically of his friends and business associates, but he did not shy away from it. "He didn't do it on purpose, but it didn't stop him. Stanley could like somebody a great deal and be very critical of him," Ranieri said.

Years after his death, Strachan left a strong impression on his reporters. Several described how Strachan pressed them to

Financial journalist Stan Strachan, circa 1960s, prior to his position at the *National Thrift News*.

dig deeper into a story. They all recalled his sense of idealism. "He would say, 'Where is your sense of outrage?'" said Mark Fogarty, the editor who replaced Strachan.

Friends and family of Strachan recalled his willingness to stand on principle. According to family legend, Strachan as a boy growing up in Brooklyn stood up to a local Mafia leader. The young Strachan complained to the mob boss, the tale goes, about local thugs selling drugs at a playground with his little brother watching, recalled Strachan's daughter, Hillary Wilson. The Mafia leader agreed and the playground drug dealing stopped, Wilson said.

Strachan's idealism is traced to his immigrant roots. Stanley Kenneth Strachan was born in Finsbury, England on August 22, 1938 to working-class parents, George and Rebecca Strachan. When Strachan was eight, his family sailed on a passenger liner to New York, passed through Ellis Island and settled in Brooklyn.

"He believed in the American dream and the standards that America was supposed to be built on, and he didn't want to compromise those," Wilson said. "When he saw those being compromised, it was outrageous to him."

Strachan attended public schools in Brooklyn but did not attend college. His journalism career began as a copy boy for the *New York Journal-American*, an afternoon daily newspaper, and he worked at other newspapers before landing at the *American Banker* newspaper. Former *American Banker* editor Brad Henderson recalled Strachan was "one of the most prolific reporters the paper ever employed."

Strachan rose to become assistant managing editor at *American Banker*. He left the paper around 1971 and was an independent journalist and freelance writer before he was recruited to lead the *National Thrift News* in August 1976.

The *National Thrift News* was the quintessential creature of the market. Founded in 1976 by John Glynn, an executive from Sperry Corp., and Wesley Lindow, a former president of Irving Trust Co., the newspaper was aimed at reporting hard news on the savings and loan industry, while at the same time seeking to "help build up the industry." The newspaper began modestly in the fall of 1976, with its first office in an apartment in New York's West Side neighborhood. Back issues of the newspaper were filed in the bathtub.

Front page of the *National Thrift News* with breaking news on the Keating Five affair, September 28, 1987.

Glynn and Lindow found in Strachan a veteran journalist who also believed savings and loans could help society by allowing middle class families to buy a home. "He saw the savings and loan industry as basically a good thing," said Stephen Kleege, a former *National Thrift News* associate editor. "It was set up to allow people to save money and make loans to purchase houses."

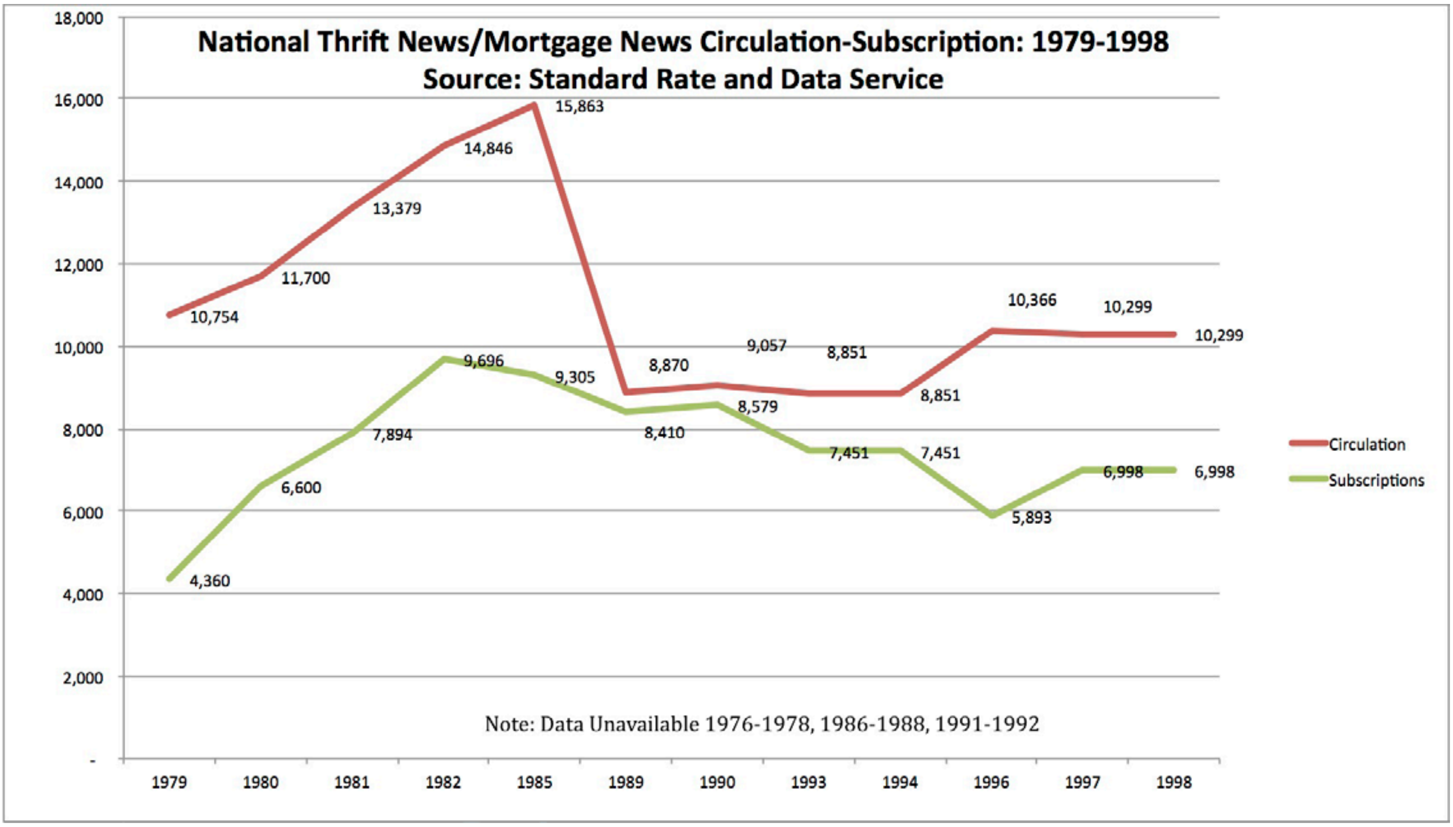
As an industry insider, Strachan would be applauded when he arrived at a savings and loan industry event and given a reserved seat in the front room. Strachan "was friendly" with businessmen, such as US League of Savings Institutions President William O'Connell; several Wall Street executives sent heartfelt condolence letters to the Strachan family after the editor's death.

Like many trade publications, the *National Thrift News* saw its fortunes rise and fall on the mortgage industry. The paper exploded in size after President Ronald Reagan deregulated the thrift industry in 1982, which set off a wave of merger and real estate activity. Before the 1982 deregulation bill, page counts ranged from 20 to 34 pages. After the 1982 bill, the paper basically doubled in size, with issues running between 37 and 66 pages through 1987, the peak of the mortgage boom at that time.

The paper was stuffed with full-page advertisements from the largest institutions on Wall Street, including Merrill Lynch, Fannie Mae and Shearson Lehman Brothers. Total circulation peaked at 15,863 in 1985; as the industry's crisis intensified and more savings and loans failed, circulation dropped to 9,057 in 1990 as Wall Street firms cut back on advertising.

The *National Thrift News* could be a classic trade journal that celebrated the industry. Take, for example, Strachan's January 3, 1980 editorial, entitled "Hip Hip Hoorah," that praised developments in the industry. These industry-friendly editorials stand in contrast to the sterner tone in Strachan's writing later in the decade as S&L executives were jailed for fraud. "He saw that it (the S&L industry) had been perverted in some way; it had been perverted by the deregulation of the 1980s," Kleege said. "He felt that he was a defender of the industry. And if defending the industry means reporting that some savings and loan executive was being arrested and led away in handcuffs, you have to report that."

By all accounts, Strachan created a culture of investigative reporting that ran counter to norms in the trade press and was unusual



for mainstream business journalism at the time. "We pulled no punches in our reporting and played no favorites—actions that were considered unusual, if not unique, for a trade publication," Strachan wrote. "And we still have the strong sense of outrage that makes it difficult for swindlers to evade our notice for very long."

But Strachan did not begin as a crusader. His colleagues and competitors described him as a solid, intelligent journalist, trying to do his job well. "It didn't start out as moral outrage," said Paul Muolo, a former *National Thrift News* associate editor. "He was trying to make a living, but then the S&L crisis happened."

This ability to navigate both roles as industry insider and industry watchdog is Strachan's powerful legacy. *National Thrift News* used its close relationship with the industry as a reporting tool. "That kind of close engagement with the industry was how we got to those stories first because we were in there," Fogarty said. "Because of our sources and our method of attack we got to know those things."

Business executives and regulators knew *National Thrift News* reporters understood this complex market. Lew Sichelman recalled that being a reporter for the *National Thrift News* allowed him to get "in the door wherever I wanted to go and talk to people I wanted to."

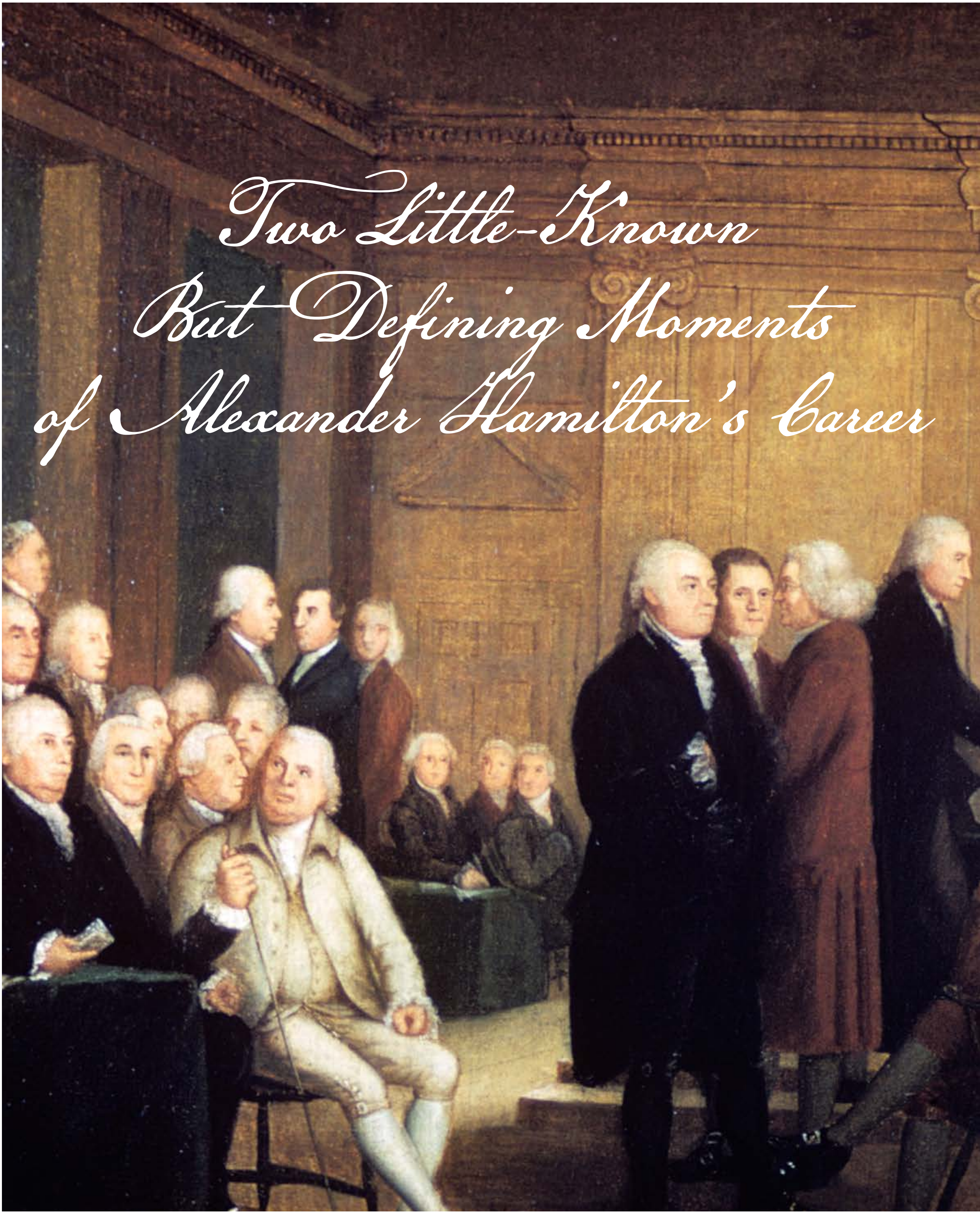
One of the newspaper's legacies is that it provided a platform for the reporting of a major book, *Inside Job*, by reporters Stephen Pizzo, Mary Fricker and Paul Muolo, one of the first detailed accounts of the national scope of the savings and loan crisis. This book is one of the main works documenting criminal activity in the mortgage industry. *Inside Job* won an Investigative Reporters and Editors award and was a *New York Times* bestseller. The ability of the *National Thrift News* to support reporting for the book—Pizzo, Fricker and Muolo met while reporting on a California thrift caper—opens a new dimension and promise for the trade press.

National Thrift News was not a one-off phenomenon. Institutional factors, such as supportive private ownership and the editor's partial ownership of the paper, boosted Strachan's autonomy and supported his journalistic professional ideals. As partial owner, Strachan could lead by example and set a tone where innovation can flourish in the newsroom. He did this through a simple yet powerful mission. The *National Thrift News* was "a reporter's paper," one where journalists could set the news agenda rather than being led by the industry.

Eugene Carlson, former communications director for the Office of Federal Housing Enterprise Oversight, said of Strachan's impact and legacy: "It is one thing for a well-heeled television network, general circulation magazine or big city newspaper to broadcast or publish a story that might offend an advertiser… It is quite another matter for a relatively small trade newspaper to relentlessly and aggressively cover the industry whose advertising dollars comprise its very lifeblood. But that's exactly the no-holds barred approach that Stan and his crew of reporters brought to their coverage of the mortgage industry." $

Rob Wells is an assistant professor at the Walter J. Lemke Department of Journalism at the University of Arkansas. He is author of a 2016 doctoral dissertation, "'A Reporter's Paper': the National Thrift News, *Journalistic Autonomy and the Savings and Loan Crisis" and won a 2015 award from the Association for Education in Journalism and Mass Communications history division for his research on the* National Thrift News.

Two Little-Known But Defining Moments of Alexander Hamilton's Career



By Michael Anthony Kirsch

Alexander Hamilton's role as chief founder of our financial system has become an object of study and appreciation in recent years. Among his most notable accomplishments, Hamilton masterfully dealt with the problem of America's seemingly insurmountable Revolutionary War debt, while turning that debt into the basis of a strong financial system. Many of Hamilton's achievements as Secretary of the Treasury are becoming well known, as is the fact that Hamilton had already developed many of the elements of his financial program carried out as Secretary during the early 1780s. But among these early writings, Hamilton's important addresses as a member of the Continental Congress in 1782 and 1783 are rarely noted, even though some of them clearly foreshadow his most consequential reports to Congress in 1790 on credit and banking[1].

In a Congressional report addressed to Rhode Island on taxation in 1782, Hamilton made what could be his first explicit statement describing the intended effect of his later plan in 1790 to create a funded debt (a debt with revenues securely pledged for regular payment of interest and eventual payment of principal). Next, in a message to the states written in April of 1783, he put forward a blueprint of what would become his credit report of 1790. In addition, his commentary upon the latter spells out how his funded debt plan would work together with his banking plan, implemented with the chartering of the Bank of the United States in 1791.

Before reviewing these Continental Congress reports, some essential background will be useful. Later, I will describe how Hamilton's early thoughts in 1782-1783 evolved into his reports as Treasury Secretary.

Currency and Debt Woes of the Revolutionary War

The Continental Congress printed $226 million of Continental currency from 1775–1779 to pay for the demands of the war. They left it to the states to uphold the value of the bills by accepting them for tax

Congress Voting Independence, circa 1776, painting by Edward Savage and/or Robert Edge Pine.

payments and taking them out of circulation. But the states did not collect enough taxes, and the Congress did not issue bonds that could have been purchased with the bills and made them a sound investment. Due to excess currency, lack of confidence in the union and the high prices of goods, severe depreciation set in; by the spring of 1780, the bills were passing at one-fortieth their face value.

Congress tried to intervene and stop the currency from depreciating by redeeming $180 million worth of bills at market value in specie (money in coin), i.e. for $4.5 million specie. The action — paying $4.5 million for $180 million of bills — was essentially a repudiation of their own promises and damaged Congress' credit; it was also unsuccessful, and the market value of currency remaining in circulation continued to decline to one-hundredth their face value by the end of the year.

Meanwhile, war demand kept driving up prices and Congress' debts to Holland, France, domestic lenders and soldiers. In February 1781, in response to the growing crisis, Congress asked the states for the power to collect import duties to begin paying its Revolutionary War debts, but this required agreement from all the states.

Additionally, in accord with the Articles of Confederation, ratified in March 1781, Congress began annually requesting the states collect and fulfill quotas of the sums needed to pay ongoing wartime expenses. The taxes the states collected were almost entirely direct taxes (property and poll taxes), which became increasingly burdensome as the war went on. Output declined and families lost laborers to the army and went into debt.

Making matters worse, since the Continental currency no longer circulated and specie was scarce, there was a shortage of currency with which to pay taxes; many taxes were paid in goods. The compliance rate on these congressional quotas from the states was roughly 50% in 1781 and 1782. For the rest, the Congress had to borrow, which largely amounted to Robert Morris, the Superintendent of Finance, writing promissory notes on his own credit.

By the end of 1781, three states still had not assented to the import duty request. Congress' debts were mounting, and Morris could barely make interest payments in specie on the debts already owed.

How could they restore paper credit and currency in this situation? A temporary balm was found in the Bank of North America, capitalized with a loan of specie from France. It began operation in January 1782 and created a dependable and credit worthy currency of bank notes through to the end of the war.[2]

Hamilton and the 1782 Address to Rhode Island

By the fall of 1782, every state had signed onto the import duty request except Rhode Island. After an unsuccessful attempt by Thomas Paine to overcome Rhode Island's objections, the Congress deputized a three-man committee to craft a special message to the state in December. The three were James Madison, Alexander Hamilton and Thomas Fitzsimmons.

Hamilton's hand can clearly be seen in much of the language. In arguing for import duties, they write that while Congress would like to pay creditors the principal of the debt, the next best thing is to "fund the debt, and render the evidences of it negotiable"; that is, to make the debt tradable as money. That statement stands out because it is what Hamilton later writes as Secretary of the Treasury in 1790. Then, the following sentence makes it entirely clear that Hamilton had already formulated the main polemic of his first famous report of 1790 in 1782. He wrote:

> Besides the advantage to individuals from this arrangement, the active stock [liquid assets] of the nation would be increased by the whole amount of the domestic debt, and of course the abilities of the community to contribute to the public wants [pay taxes]. The national credit would revive and stand hereafter on a secure basis.

Funding the debt would increase the liquid assets in the economy by the amount of the debt, Hamilton said, and it would allow public borrowing to be a resource in the future. He added, that "This was another object of the proposed duty," a statement which shows he had in mind a much more integrated system of finance than simply collecting import duties to pay off a war debt. He would soon elaborate.

Hamilton and the 1783 Congressional Tax Plan

What happened? Rhode Island still did not budge and agree to import duties to finance the Federal authority, and Virginia rescinded its previous agreement. The exercise of the previous two years asking the states for an import duty power fell flat. In response, Morris threatened to resign if Congress could not figure out how to fund the debts. Congress debated the issue for some time and reached a compromise plan in April 1783.

Congress still asked for the power to collect taxes, but instead of an indefinite duration for the power to pay the debt — 30 years or more — they requested 25 years. Also, instead of a broad power to collect duties on all goods to reach the total amount, the plan gave the states the power to choose whatever they wanted for 50% of the total. Hamilton objected to the compromise and was one of three delegates to vote against it. One might wonder, what is

the difference? Would not the same dollar amount of taxes be collected? And what difference does five years make?

The issue was one of having definite security. In addition to other objections, Hamilton had the following to say when writing to New York Governor George Clinton about the plan later that May:

> For want of an adequate security [a certain source of funds], the evidences of the public debt will not be transferrable for anything like their value — that this not admitting an incorporation of the creditors in the nature of banks [allowing them to use bonds as capital for bank stock] will deprive the public of the benefit of an increased circulation, and of course will disable the people from paying the taxes for want of a sufficient medium.

Hamilton's statement is remarkable. It was not a simple matter of obtaining taxes to collect money to pay the debt, but the financial system overall had to be kept in mind: To collect more taxes required a sufficient circulation and stable system of paper credit; a stable currency required a proper way to capitalize banks. But there was not enough specie to capitalize banks; therefore, the government needed to turn US debt into valuable securities equal to money. The latter was not possible unless the debt was funded, requiring an import duty that was broad enough, dependable and coextensive in time with the duration of the debt.

The quote from Hamilton is also exciting because it shows the point of conceptual transition from the 1781 design of the Bank of North America to the 1791 Bank of the United States and other state banks in the 1790s: the specie basis of the former limited its capital size, while the design of the latter recognized the importance of government securities for banking capital and reserve assets.

Though he voted against it, Congress tasked Hamilton in April to co-write an explanation of the plan to the states with Madison and Oliver Ellsworth. More elements of his 1790 credit plan can be found in the following points of their argument:

- That providing for paying the interest on the debt would enable creditors (buyers of the government debt and receivers of debt certificates for payment) to "transfer their stock at its full value," for trade purposes;
- That the "capital of the domestic debt," which bore an interest of 6% could be "canceled by other loans" obtained at a lower interest; in other words, they proposed refinancing the debt for a better rate.
- That it would be a mistake to discriminate amongst the creditors, whether they were French or Dutch, soldiers, domestic lenders or those who had purchased the debt certificates from the original creditors.

All three of these were explicit points of Hamilton's future credit report of 1790. The last is quite interesting since Madison became the chief opponent in Congress of Hamilton's 1790 plan, objecting that it *did not* discriminate amongst the creditors to be paid back.

The April 1783 tax plan never went into operation because the states did not all approve it; New York was still objecting to congressional taxation power in 1787.

The Depression of the 1780s

In 1784, a deep post-war depression set in. It was caused in part by a large negative trade balance that caused merchants to withdraw specie from the Bank of North America to pay for imports. Other factors included speculative trading, credit contraction, interest rate hikes, lack of war demand, government crowding out of Bank of North America credit due to war debts and Britain closing its ports to American ships in the West Indies.

Increases in direct taxes by the states after the war to pay off state debts increased five to 10 times. These taxes became unbearable as farmers had little specie. The dramatic, increasing weight of direct taxation under conditions of depression led to farmers' revolts, movements and legislation for debt and tax relief, depreciating state currencies and reduced property values.

Congress went broke. Morris had to begin postponing interest payments on the debt in 1784, marking the beginning of their steady decline in value. The Congress then collected only 20% of what it requested in 1785 and only 2% in 1786. In 1787, it would be insolvent and unable to pay the first principal payments due to their foreign creditors.

Hamilton's 1790 Credit Plan

This situation created the climate for the Constitutional Convention, for which taxation, debt and currency reform were major motivators. Consequently, in his January 1790 report to Congress on Supporting the Public Credit, Hamilton, then Treasury Secretary, combined these issues into one package.

Hamilton devised his plan at a time when the debts of the Congress, both foreign and domestic, were unpayable with existing revenues, as were the debts of the state governments. Debt certificates were trading for a small fraction of their original value. As he had first explained in 1782–1783, Hamilton's solution was to refinance and fund the debt. This was made possible by his pledge that the government would pay all debts to all creditors at face value. » *continued on page 39*

CATHEDRALS *of* COINAGE

A History of the US Mint's Locations

By Michael A. Martorelli

Throughout American history, the US Mint has operated facilities in nine US cities, as well as in Manila, the capital of the Philippines. Another was planned, but not completed, in the state of Oregon. Six of these specialty manufacturing facilities were founded in response to gold or silver strikes in their regions, and many of them have become more iconic in their retirement than when they were in full-scale operation.

Throughout the 17th and 18th centuries, Great Britain did not supply its colonists in British North America with enough official coins to facilitate inter-colonial commerce. The colonists, therefore, used coins from Spain, Portugal, France and other countries as mediums of exchange. They also used nails, tobacco, Indian wampum and the barter system to expedite the purchase and sale of goods and services.

Following the American Revolution, government officials recognized the need for a standardized monetary system, and in 1781 the Articles of Confederation gave both Congress and the states the right to produce coins. However, none of the multiple varieties of coins struck by the federal or state governments or their authorized contractors achieved widespread circulation.

In 1789, the US Constitution gave Congress the exclusive power to coin money, but it still took several years of study and deliberation before that body passed the first of many Coinage Acts. The new monetary system that law created was based largely on Secretary of the Treasury Alexander Hamilton's January 1791 "Report on the Establishment of a Mint." The April 1792 Coinage Act was officially named "An Act establishing a mint, and regulating the Coins of the United States." It designated the US dollar as the standard unit of money, established the US Mint, authorized the production of coins in denominations ranging from a half cent ($0.005) to an eagle ($10) and detailed the standards for the production of America's coins.

Since Philadelphia was the nation's capital and its largest population center, it made sense to locate the first US Mint in that city. In July 1792, President George Washington appointed former Pennsylvania Treasurer David Rittenhouse as the first director of the Mint. Later that month, Rittenhouse purchased two properties on Seventh Street and laid the cornerstone of the first public building to be constructed by the United States.

The first mint building was completed in September 1792, and two others followed in the next few months. The mint began producing copper coins in 1793; it added silver coins in 1794 and gold coins in 1795. The growing population's strong demand for coins prompted the government to construct a larger production facility at the corner of Chestnut and Juniper Streets in Philadelphia in 1833. Initially, the new facility used the old machinery brought over from the Seventh Street buildings, but the equipment's reliance on human muscle power to strike coins limited the new mint's capacity.

Realizing the need for upgraded technology, the Mint's fifth director, Samuel Moore, hired the well-known machinery expert Franklin Peale to study coin-making techniques in Europe. Upon Peale's return from his two-year information gathering trip, he supervised the installation of state-of-the-art steam powered presses and milling machines. Thus, in 1836, the Philadelphia Mint became the world's most advanced coinage facility.

An article entitled "The First US Gold Rush" in the Summer 2016 issue of *Financial History* describes the little-known North Carolina gold rush, which began in 1799. In the first two decades of the 19th century, various mines in that state produced several thousand ounces of gold and sent them to Philadelphia to be made into coins. In 1828, gold was discovered in the nearby state of Georgia. By 1832, mines in that state were also sending Philadelphia a large supply of gold destined for coinage.

To ease production bottlenecks and meet the demand for coinage, President Andrew Jackson signed The Mint Act of 1835, which authorized the establishment of US Mint branches in Charlotte, North Carolina; Dahlonega, Georgia; and New Orleans, Louisiana. All three of these branches had rather limited lives. They were seized by the Confederate government during the Civil War, with officials continuing to produce coins for a short time.

After the war, the US government decided to close the Charlotte and Dahlonega facilities. But in 1876, it gave the New Orleans branch another chance at life by reopening it as an assay office. In 1879, after refurbishing its minting equipment, officials re-commissioned the facility as a producer of silver coins. For the next 25 years, it was the largest producer of the famous Morgan silver dollar. In 1909, Treasury officials decided the country no longer needed the mint's production capacity; they decommissioned it in 1911.

The discovery of gold in California prompted the government to open another branch of the US Mint in San Francisco in 1854. In its first year of operation, the San Francisco Mint turned $4 million in gold bullion into coins. Growing demand from the western states prompted the government to build a larger San Francisco facility in 1874. This unusual building featured an enclosed central courtyard with a well. Within several years, this mint was producing more than 60% of the country's gold and silver coins; its vaults became the repository for nearly one-third of the nation's gold reserves.

Library of Congress

First US Mint building in Philadelphia, circa 1850–1860.

Photos: Library of Congress

Top to bottom: US Mint in New Orleans, 1880–1901; US Mint in Philadelphia, 1905; US Mint in San Francisco following the earthquake, 1906.

The sturdiness of this facility, later called the "Old Mint," became evident during the 1906 San Francisco earthquake and fire; it was one of few buildings in the city that survived. Diligent mint workers and a shift in wind direction helped saved the building and its underground vaults, which at the time housed $300 million in bullion. By 1936, even this venerable building became too small to handle the demand for coins throughout the western United States. The government began operating a new San Francisco facility the following year. The "New Mint" produced circulating coinage until 1955. In 1968, it began producing proof coinage sets; it continues to serve this function today.

Meanwhile, in 1961, the still-standing "Old Mint" was designated a National Historic Landmark and has been periodically open to visitors. Recently, the California Historical Society began to restore the building and preserve it for use as a public space.

Even while the San Francisco Mint was going strong, a silver strike in Carson City, Nevada prompted the government to begin operating another branch mint in 1870. The Carson City facility produced gold and silver coins until 1893. The building closed that year, but it re-opened two years later and served as an assay office until 1933. The State of Nevada acquired the building in 1939, and it now houses the Nevada State Museum.

A gold strike in Colorado in 1858 prompted the government to open another mint assay office within a few years. In 1860, three entrepreneurs opened a private mint inside their bank. They produced coins and shipped gold dust to the Philadelphia Mint. In 1872, another group of men opened a smelting and refining company, which processed ore ingots for assaying by the Denver Mint. In 1896, the government purchased the land on which it would build a permanent branch mint there. The new facility began operating in 1906—two years after its new stamping machinery was exhibited at the 1904 St. Louis World's Fair. It remains in operation today.

In 1862, gold was discovered in eastern Oregon. Dalles City, located on the Columbia River, became the nerve center of the gold rush. Riverboats carried the gold ore westward to Portland for the long ocean voyage to the San Francisco

Mint. It became apparent that the Pacific Northwest needed an assay office, and possibly a mint. A US Senator from Oregon proposed building one in Portland, but the US Congress—pre-occupied with the Civil War—did not act on that recommendation.

Two years later, Congress authorized the construction of a mint to produce coins and ingots, but it proposed locating it in Dalles City instead of Portland. The city has since been renamed "The City of the Dalles." Sectional bickering and bureaucratic inertia interfered with plans to begin construction during the next two years. The planning and initial construction work on the Carson City branch mint also caused some officials to question the need for the Dalles facility. Construction finally began in 1869, but the waning of the gold rush, the opening of the Central Pacific Railroad and the operation of the Carson City Mint combined to obviate the need for the Dalles Mint. The building has since been put to a variety of uses by a succession of private owners.

The complex story of the United States taking possession of the Philippines in 1902 is not relevant to this story. What is relevant is the unusual decision to have a US Mint produce coinage for the inhabitants of that territory. A facility in Manila had been producing various centavo denominations of silver coins since 1861. In 1903, both the San Francisco and Philadelphia Mints began producing circulating coins and proof sets for the Philippines. In 1920, the US government decided to establish the Manila Mint as an official branch of the US Mint, making it the first and only branch ever located outside the United States. It produced all coinage for the Philippines until 1922 and again from 1925 to 1941. The San Francisco, Philadelphia and Denver Mints produced the Islands' coinage for a brief time near the end of World War II, before the United States granted the nation full independence in July 1946.

The most recently-established and highly-specialized US Mint facility was completed in 1938 near the US military academy in West Point, New York. For more than 30 years, it was primarily used as a storage facility for silver bullion. It was a companion facility to the gold repository built in 1936 at Fort Knox, Kentucky.

From 1973 to 1986, the West Pont Mint produced pennies to reduce the production pressure on other facilities. Using modern equipment, it also produced bicentennial quarters in 1976 and gold medals in 1980. In 1988, the government granted it official status as a branch mint. The West Point Mint is still used as a storage facility, but it also produces a variety of commemorative gold and silver coins, as well as other proof and uncirculated products. $

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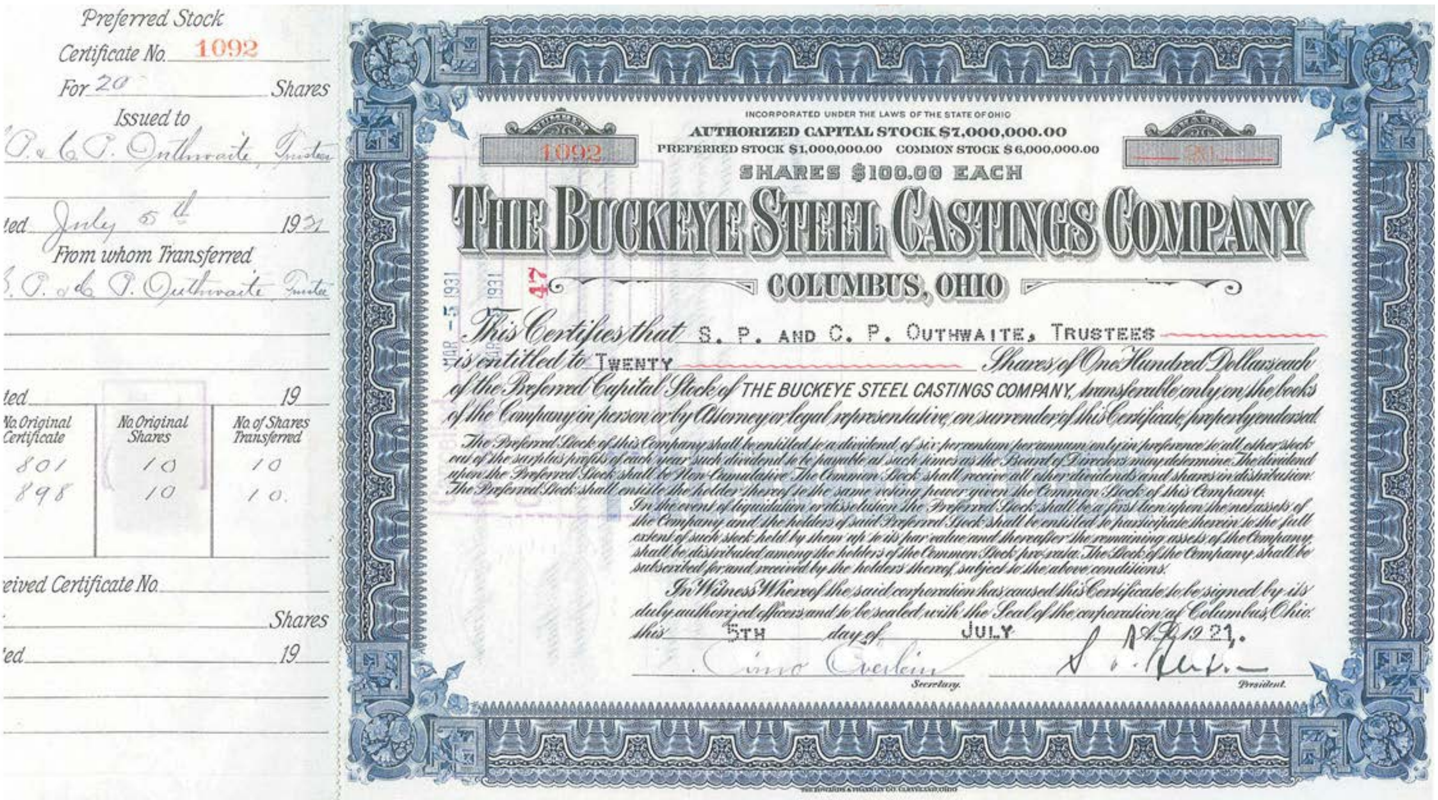
POLITICS AND INVESTING



Certificate for stock in The Buckeye Steel Castings Company, signed by Samuel Bush, great-grandfather of George W. Bush, 1921.

By Kenneth Winans

Since the beginning of our nation's history, many politicians from nearly every political party have been wealthy, successful investors. In fact, many congressional, senatorial and presidential campaigns have been financed by the fruits of the candidates' (or their families') investment successes. Do winds of political change really have an effect on investing in America? Ultimately, investors—regardless of their political views—want to see their stocks and real estate holdings appreciate in value within a low interest rate environment.

You might not be surprised that President Ronald Reagan's two terms showed a 138% increase in stocks, a 72% increase in home prices and a 162% increase in corporate bonds (371% combined return), but the best single term was that of the obscure Rutherford B. Hayes. During his tenure, investments increased an astounding 369% in four years!

Still, not all bull markets have been generated on the Republican side. The best return for a Democrat was Bill Clinton's post-Cold War tenure of 263%, the second best on record. The highly-visible scandals of the Reagan and Clinton administrations didn't seem to matter to Wall Street.

On the flip side, both parties have had bear markets on their watch. The Republican Herbert Hoover and Democrat Franklin Pierce posted disastrous investment losses. And no President had the highs and lows of Franklin D. Roosevelt, whose administration made the lists for best and worst single terms.

Since 1849, the average Republican presidential term has posted a 52% return in stocks, a 26% increase in home prices and a 35% return in corporate bonds. Of the 24 Republican administrations, only five saw declines in the stock market and seven saw declines in home prices.

Since 1849, the average presidential term for a Democrat produced a 49% return in stocks, a 14% increase in home prices and a 24% return in corporate bonds. Of the 17 Democratic administrations, only two had declines in the stock market and five saw declines in home prices.

To whom should investors pay the most attention: the President, Congress or the Federal Reserve? Historically, the President has been praised and blamed for the economy. For instance, President Hoover is the popular choice to blame for the Great Depression, while House Speaker Nicholas Longworth and Federal Reserve Chairman Roy A. Young are rarely mentioned for their roles in the disaster.

Until Paul Volcker became chairman of the Fed, the public didn't pay much

attention to the central bank, and yet an argument can be made that the actions of this body have had the most direct effect on the investment world.

Today, Capitol Hill, the White House, Wall Street and the media have a love/hate relationship with the Fed. But has America economically performed better with the Federal Reserve trying to control inflation and enhance economic growth? In looking at charts of inflation and economic growth since 1800, it can be seen that economic growth is more stable under the Fed's watch. Deflation is less prevalent, yet inflation still seems to have been a persistent problem since the Federal Reserve's establishment in 1913.

The Fed

There have been 15 chairmen of the Federal Reserve, with tenures ranging from 1.2 to 18.8 years. Stocks and homes posted their best inflation-adjusted gains during the tenures of Charles Sumner Hamlin, Daniel Richard Crissinger and Paul Volcker. The long tenures of William McChesney Martin and Alan Greenspan were marked with strong investment performance, even though inflation was nearly twice as high during Miller's terms. The only Fed chairman to have declines in both stocks and housing during his term was Eugene Meyer during the 1930s.

Short-term interest rates were more stable in the early days of the Federal Reserve. From 1914–1951, there were eight Federal Reserve chairmen and the range of the federal funds rate was 2.4% (the highest inflation rate averaged 6.7%). Since 1951, there have been six different Federal Reserve chairmen, and the federal funds rate range increased to 9.6% (the highest inflation rate averaged 8.8%). The long tenure of Greenspan had a profound effect on modern-day Fed policy, where inflation was benign, yet short-term interest rates ranged widely from 9.9% to 0.9%.

Taxation

The old saying, "It's not what you make, but what you get to keep" really holds true with investing and taxes. Taxes strongly influence which investments are used, when profits and losses are realized and which types of accounts are used (taxable versus tax-deferred). Over time, taxes ebb and flow, and the government has developed a complicated maze of investment-related taxes such as income tax (with dividends taxed twice due to taxes paid by the corporate entity), capital gains, estate taxes and penalties for early and late IRA withdrawals, to name a few.

Much has been written about taxes on investment, and though these articles and books have been written at different times about different situations, they all deal with the need for an individual's investment strategy to strike a balance between realizing maximum profits and minimizing the impact of taxes. Simply put, selling an investment at the top is always an investor's goal, and yet in the world of taxes, it might not be the most profitable solution.

Income taxes were permanently imposed on US citizens in 1913 and have been increased and reduced on 22 separate occasions. Top income tax rates have ranged from 15% in 1916 to 94% in 1944. Capital gains tax has ranged from 7% in 1913 to 39.9% in 1975. Big jumps in tax rates (such as in 1917, 1932 and 1934) were not well received on Wall Street.

There is also a strong inverse relationship between the level of the capital gains tax rate and the stock market. During the two periods ranging from eight to 10 years in which this tax exceeded 30%, the stock market performed miserably. It is also important to note that although the tax rate level has been in a general decline since the late 1940s, investment tax law has become very complicated and can easily turn a good investment into a tax nightmare.

Who Really Caused the Great Depression?

One of the public's mistaken beliefs about Wall Street is that the Great Crash of 1929 caused the Great Depression. Though the stock market reacted to the deteriorating economic conditions of the 1930s, the US government's disastrous policies of large increases in interest rates, imposing high barriers to foreign trade, increasing income taxes 152% and a massive increase of the government regulation of business were the real culprits in the economic meltdown and the slow recovery. In fact, it took more than 22 years for both stocks and real estate to get back to their highs of 1929.

Uncle Sam Summary

The accompanying table lists taxes (set by the President and Congress), Fed funds rate (set by the Federal Reserve) and stocks and real estate prices. Several key facts materialize when reviewing the investment carnage after 1915, the 1930s, the early 1970s and the early 2000s: 1. The Federal Reserve significantly increased interest rates prior to and during each of these periods. 2. Investment-related taxes were significantly increased in three of these four periods. 3. The combination of increases in both taxes and interest

Presidents and Investments

		Percentage Change			
Best Single Terms	**Beg. Term Year**	**Investments**	**Common Stocks**	**Homes**	**Corporate Bonds**
Hayes	1877	369%	97%	233%	39%
Coolidge	1925	258%	176%	55%	28%
Roosevelt, F	1933	226%	95%	62%	69%
Best Multiple Terms					
Reagan	1981-1988	371%	138%	72%	162%
Clinton	1993-2000	263%	171%	33%	59%
Eisenhower	1953-1960	252%	148%	85%	19%
Worst Single Terms					
Hoover	1929	-118%	-63%	-57%	-2%
Pierce	1853	-49%	-11%	-39%	na
Roosevelt, F	1937	-33%	-23%	-16%	6%
Worst Multiple Terms					
Bush (G.W.)	2001-2008	58%	-20%	30%	48%

Republicans & Whigs:

Beg. Term Year	Administrations	Rank	Investments % Chg	Multiple Terms	Common Stocks % Chg	Homes % Chg	Corporate Bonds % Chg	Tbill Yields Term-end
1849	Taylor / Filmore	15	77%		66%	11%		4.66%
1861	Lincoln	4	215%		169%	45%		5.42%
1864	Lincoln / Johnson	12	109%		37%	42%	31%	5.36%
1869	Grant	17	64%		38%	-7%	34%	5.14%
1874	Grant	19	56%	120%	6%	-11%	61%	4.31%
1877	Hayes	1	369%		97%	233%	39%	4.13%
1881	Garfield / Arthur	22	-24%		-6%	-41%	22%	4.57%
1889	Harrison	18	60%		26%	9%	24%	3.18%
1897	McKinley	5	198%		80%	90%	28%	3.76%
1901	McKinley / Roosevelt, T	21	-24%		-11%	-32%	18%	4.45%
1905	Roosevelt, T	9	144%		117%	-10%	38%	4.31%
1909	Taft	18	62%		24%	22%	16%	3.52%
1921	Harding / Coolidge	6	179%		109%	22%	48%	2.61%
1925	Coolidge	2	258%		176%	55%	28%	4.26%
1929	Hoover	23	-118%		-63%	-57%	2%	0.08%
1953	Eisenhower	7	157%		96%	52%	10%	2.56%
1957	Eisenhower	13	94%	252%	52%	33%	9%	2.27%
1969	Nixon	14	78%		29%	12%	37%	5.06%
1973	Nixon / Ford	11	117%		11%	58%	48%	4.35%
1981	Reagan	8	150%		50%	18%	83%	7.86%
1985	Reagan	3	221%	371%	88%	54%	79%	8.10%
1989	Bush, G.H.W.	10	141%		74%	1%	65%	3.09%
2001	Bush, G.W.	16	76%		-2%	39%	40%	2.22%
2004	Bush, G.W.	21	-18%	58%	-18%	-9%	8%	0.01%
Average			**110%**		**52%**	**26%**	**35%**	**3.97%**
High	Best Performance		**369%**		**176%**	**233%**	**83%**	**8.10%**
Low	Worst Performance		**-118%**		**-63%**	**-57%**	**2%**	**0.01%**

Democrats

Beg. Term Year	Administrations	Rank	Investments % Chg	Multiple Terms	Common Stocks % Chg	Homes % Chg	Corporate Bonds % Chg	Tbill Yields Term-end
1853	**Pierce**	17	-49%		-11%	-39%		6.50%
1857	**Buchanan**	15	-25%		10%	-35%		1.93%
1885	**Cleveland**	13	50%		41%	-27%	37%	4.06%
1893	**Cleveland**	12	52%	102%	21%	7%	23%	4.66%
1913	**Wilson**	8	101%		75%	8%	18%	2.95%
1917	**Wilson**	14	40%	140%	1%	40%	-1%	5.67%
1933	**F. Roosevelt**	1	226%		95%	62%	69%	0.00%
1937	**F. Roosevelt**	16	-33%	192%	-23%	-16%	6%	0.00%
1940	**F. Roosevelt**	11	57%	23%	33%	-18%	42%	0.38%
1945	**F. Roosevelt / Truman**	3	142%		66%	69%	8%	1.15%
1949	**Truman**	2	166%		121%	30%	15%	2.13%
1961	**Kennedy / Johnson**	9	98%		65%	31%	1%	3.86%
1965	**Johnson**	10	95%		38%	26%	30%	5.92%
1977	**Carter**	7	111%		57%	54%	0%	14.99%
1993	**Clinton**	4	134%		86%	16%	32%	5.06%
1997	**Clinton**	5	129%	263%	85%	17%	27%	5.87%
2009	**Obama**	6	124%		69%	7%	48%	0.05%
2013	**Obama**	9	98%	222%	70%	28%	1%	0.54%
Average			**83%**		**49%**	**14%**	**24%**	**3.83%**
High	Best Performance		**226%**		**121%**	**69%**	**69%**	**14.99%**
Low	Worst Performance		**-49%**		**-23%**	**-39%**	**-1%**	**0.00%**

Government Actions & Investments:

Beginning of Year	President	House Speaker	Investment Taxes: Individual Income Tax	% Chg	Capital Gains Tax	% Chg	Short-Term Interest Rates: Fed Chairman	Fed Funds Rate	% Chg
1916	Wilson (D)	Clark (D)	15	0%	7	0%	Harding	3.00	0%
1917	Wilson (D)	Clark (D)	67	347%	7	0%	Harding	3.00	0%
1918	Harding (R)	Clark (D)	77	15%	7	0%	Harding	4.00	33%
1929	Hoover (R)	Longworth (R)	24	-4%	12.5	0%	Young	4.50	-10%
1930	Hoover (R)	Longworth (R)	25	4%	12.5	0%	Young	2.00	-56%
1931	Hoover (R)	Longworth (R)	25	0%	12.5	0%	Meyer	3.50	75%
1932	Hoover (R)	Garner (D)	63	152%	12.5	0%	Meyer	2.50	-29%
1933	F. Roosevelt (D)	Garner (D)	63	0%	12.5	0%	Meyer	2.00	-20%
1934	F. Roosevelt (D)	Rainey (D)	63	0%	32	156%	Eccles	1.50	-25%
1935	F. Roosevelt (D)	Byrns (D)	63	0%	32	0%	Eccles	1.50	0%
1936	F. Roosevelt (D)	Byrns (D)	78	24%	39	22%	Eccles	1.50	0%
1937	F. Roosevelt (D)	Bankhead (D)	78	0%	39	0%	Eccles	1.00	-33%
1938	F. Roosevelt (D)	Bankhead (D)	78	0%	30	-23%	Eccles	1.00	0%
1939	F. Roosevelt (D)	Bankhead (D)	78	0%	30	0%	Eccles	1.00	0%
1940	F. Roosevelt (D)	Bankhead (D)	78	0%	30	0%	Eccles	1.00	0%
1941	F. Roosevelt (D)	Rayburn (D)	80	3%	30	0%	Eccles	1.00	0%
1942	F. Roosevelt (D)	Rayburn (D)	88	10%	25	-17%	Eccles	0.50	-50%
1943	F. Roosevelt (D)	Rayburn (D)	88	0%	25	0%	Eccles	0.50	0%
1969	Nixon (R)	McCormack (D)	77	3%	27.5	2%	Martin	8.97	49%
1970	Nixon (R)	McCormack (D)	70	-9%	32.3	17%	Martin	4.90	-45%
1971	Nixon (R)	Albery (D)	70	0%	31.3	-3%	Burns	4.14	-16%
1972	Nixon (R)	Albery (D)	70	0%	36.5	17%	Burns	5.33	29%
1973	Nixon (R)	Albery (D)	70	0%	36.5	0%	Burns	9.95	87%
1974	Ford (R)	Albery (D)	70	0%	36.5	0%	Burns	8.86	-11%
2000	Clinton (D)	Hastert (R)	39.6	0%	20	0%	Greenspan	6.25	9%
2001	GW Bush (R)	Hastert (R)	39.1	-1%	20	0%	Greenspan	1.63	-74%
2002	GW Bush (R)	Hastert (R)	38.6	-1%	20	0%	Greenspan	1.19	-27%
	Median		**70.0**	**0%**	**25.0**	**0%**		**3.7**	**0%**
	Average		**60.6**	**4%**	**23.0**	**2%**		**4.3**	**6%**
	High		**94.0**	**347%**	**39.9**	**156%**		**20.0**	**141%**
	Low		**15.0**	**-46%**	**7.0**	**-29%**		**0.5**	**-74%**

Large Tax Rate Decreases
Large Tax Rate Increasses

rates were present during severe, multi-year bear markets in both stocks and real estate.

When it comes to government economic miscues, there is plenty of blame to go around. To revisit the question of who investors should pay the most attention to (the President, Congress or the Federal Reserve), the answer is all of them. $

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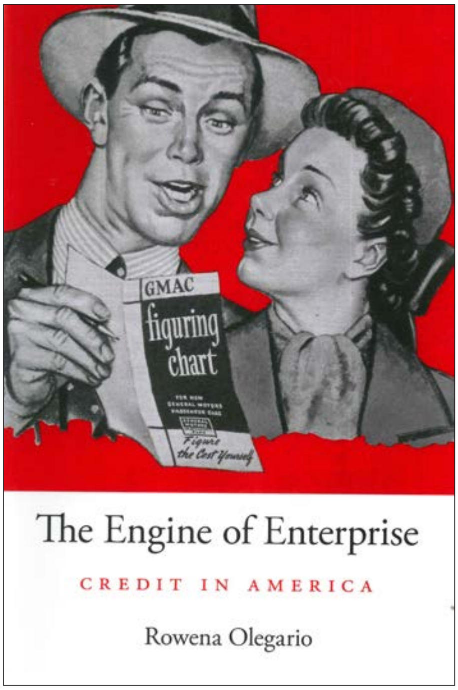

The Engine of Enterprise: Credit in America

By Rowena Olegario
Harvard University Press, 2016
301 pages, with extensive notes and index, and a few illustrations

BECAUSE THE UNITED STATES of America is so big and so rich, it also tends to be provincial. Thus, it is always useful to get an outside perspective. That is just what Rowena Olegario has provided in this slim and plainly written volume. She is a senior research fellow at the Said Business School, University of Oxford. Her theme, though not overtly stated, is that credit makes the world go 'round and that the development and evolution of both business and consumer credit in the United States were instrumental in making this country so wealthy.

In particular, Olegario does an excellent job of tracking the development of bankruptcy law and practice as it shook off the shackles of shame and moral failure, and grew to embrace the ideas of orderly disposition and a fresh start. If credit is a tough topic to animate, bankruptcy is even more so. But from the origins of "bankruptcy" and "insolvency"—two different concepts at one time—through the fits and starts of shifting ideas of protecting lenders to protecting creditors, Olegario makes a clear case for a greater good developing.

One unsung pivotal date in US financial history that the author has rescued from obscurity is 1841. It is not only the year an important bankruptcy reform law was enacted, but also the year of the first formal credit report.

"The Bankruptcy Act of 1841 was a watershed," Olegario wrote. "For the first time, debtors could fail voluntarily: they could initiate their own bankruptcy by turning over their assets to court-appointed assignees and be discharged from their debts. Creditors could contest a voluntary filing only by proving that the debtor had committed fraud."

To be sure, there were many more advances and not a few retreats, but the idea of a clean start had taken root.

That same year, merchant and abolitionist Lewis Tappan established the Mercantile Agency in New York. He paid attorneys as credit reporters as they traveled from town to town, conducted their business and interacted with shopkeepers and traders. Competitors quickly sprang up. John Bradstreet invented numerical scores instead of narrative reports. Tappan sold his business to Benjamin Douglass, who later sold it to Robert G. Dun, who adopted the concept of numerical ratings and published a book of ratings for more than 20,000 firms in 1859.

It will not surprise anyone who has tussled with a credit reporting agency that legal and ethical disputes arose early in the credit reporting process. From the start, merchants and later individuals brought suits for libel and slander contending that information was incorrect or worse.

While the threads of bankruptcy and credit reporting enliven the reporting, the book mostly remains just that: straight reporting. In this era of narrative non-fiction, the author has kept things simple and plain. A little bit more excitement, a clever turn of phrase or two, would have served the cause well. After all, economics is the dismal science. There was plenty of room to write with a little more pep without getting overly dramatic.

Perhaps that is the downside to the outside perspective. Towards the end, when discussing the effects of credit reporting on consumers, Olegario flatly calls the three current agencies an oligopoly, for indeed they are. But just two paragraphs later she goes mushy writing that "the Federal Trade Commission prosecuted *a number of* credit information providers…" If there are only three that matter, then a number of them would be two? All three?

Similarly, when discussing the irresponsible mortgage lending of the 2000s, she quotes Alan Greenspan's comment that "children, dogs, cats and moose" were able to get loans, but she concludes that the greater good was more credit. For those who lived through the real estate meltdown, this is a shrug to collateral damage. Olegario does not have to turn into Gretchen Morgenson, but in these cases, where millions of people were devastated and billions of dollars lost—or looted—academic distance comes across a bit callous.

In all, this is a useful book, broader than it is deep, but making meaningful connections and bringing fresh perspective. $

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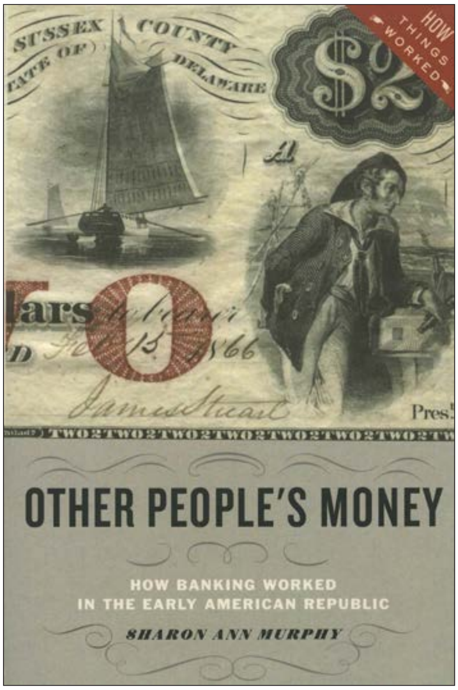

Other People's Money: How Banking Worked in the Early American Republic

By Sharon Ann Murphy
Johns Hopkins University Press 2017
192 pages with Notes,
Suggested Reading and Index
$18.49

Americans, in general, like to haggle. I can only imagine the back and forth that took place over the purchase of Manhattan. Today, almost everything is negotiable — from hotel rooms to hip replacements. But what if a merchant or seller told you that your $100 bill would only buy $95 worth of goods? In other words, that the quality of your money was part of the negotiations. Commerce would slow to a crawl.

Confidence and trust in a medium of exchange is absolutely crucial to building markets of any size and complexity. This seems simple to understand. But in our nation's 241-year history, the journey from dodgy, untrustworthy financial instruments and institutions to the stable (we hope!) national standards we have today was anything but simple.

In her book, *Other People's Money: How Banking Worked in the Early American Republic*, Professor Sharon Ann Murphy of Providence College charts the development and approaches to money and banking from the late colonial era to just after the Civil War. It is what I would call a micro-history; sticking to the practical financing and credit challenges faced by a frontier, largely agrarian economy growing towards industrialization. Along the way, the story is punctuated by war, fraud, Herman Melville and one emotional, populist President who ran a multi-year campaign against the monied classes and institutions they supposedly ran.

To grab our attention, the book opens with a flash-forward to 1832, to highlight how America has always had a love-hate relationship with financial markets. Andrew Jackson, our seventh president, was a General, a duelist and a cutthroat killer of Native Americans. In short, he was a world-class hater, and what he hated with a special passion was banks. He believed that the Second Bank of the United States, which acted as a repository of US government receipts and a sort of nascent central bank, was evil — owned and run by Eastern elites for their own profit. President Jackson killed the bank by denying its re-charter. The battle over the bank and its power reverberates to today, with acrimonious debates over the size, intentions and control of the Federal Reserve System.

Professor Murphy then returns to the colonial period, focusing on how, in the absence of a ready supply of specie (hard gold or silver), Americans adapted to do business. Coins (many Spanish) were chopped up into smaller pieces to facilitate commerce. Early banking companies issued their own notes, supposedly backed by specie, which were negotiated for payment. The more distant the bank, the more likely the face value of the note was discounted. Counterfeiting was rife, with catalogues of phony bills and how to spot them enjoying a brisk trade.

Because the Constitution was vague on who could print money, and states jealously guarded their turf, state chartered banks filled the need for credit and currency. Professor Murphy provides a lot of detail here, as each state came up with its own approach to the creation, capitalization and regulation of financial institutions. It's no surprise that some were solid, but most were not. It was a case of fits and starts, as economic activity sped up, credit expanded (and inevitably over-expanded) and then contracted, sometimes violently.

Were the national panics of 1819, 1837, 1857, 1873, 1893, etc., caused by banks, or were banks victims of recurring business cycles? It depends on how badly you were hurt. We certainly know where Andrew Jackson stood on the issue.

Wars and how to fund them are a continuing theme in *Other People's Money*. With little credit and no taxing authority, the Revolutionary government inked up the printing presses and issued paper money that quickly lost almost all value. The War of 1812 was a little better with the use of bond sales, and the issuance of large denomination Treasury notes offsetting the decline in tariff receipts.

The book comes to a narrative conclusion in describing the financing approaches during the Civil War. The Confederacy had few options and, choked by a blockade, resorted to printing money. The North employed a larger financing arsenal, instituting internal taxes on various classes of goods (sort of a VAT), and going national on selling bonds direct to the public. The Philadelphia banking house of Jay Cook & Company pioneered mass market techniques to get the Northern bonds sold.

This is a brisk, well-researched tour of how the American finance and banking sector got its start. But behind the facts and the figures there is emotion in the story. We are just coming out of a vicious and harmful recession and continue to argue over what caused it and who is to blame. Professor Murphy's book reminds us that there is nothing new under the sun. $

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Risk Management on the Range

continued from page 9

Courtesy of Brian Grinder

Brian Grinder uses these photos — of his grandfather branding cows and his father recovering in St. Joseph's hospital — to introduce his students to the concept of risk management.

In my personal finance course, I use my grandfather's story to introduce the concept of risk management and insurance. I show my students two photographs, one of my grandfather branding a calf and another of my father in the hospital in Deadwood, South Dakota. Then I tell them that the primary way my grandfather dealt with risk was through risk assumption. I also point out that there are other, more effective, ways to deal with risk today. His story motivates the ensuing discussions on risk avoidance, risk reduction, life insurance, health insurance, automobile insurance, and so on.

There are no surprises in a completed life. My grandfather has been gone now for almost 60 years, but the risk-filled events of his life continue to serve as examples of the important role that insurance and other risk management tools can play in everyone's financial future. However, his belief that he couldn't afford and didn't need risk-reducing financial services never prevented him from living a fulfilling life. I have a feeling that he wouldn't have wanted to live it any other way. $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

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Notes

1. The name was later changed to the Buffalo Bill Dam.
2. Journalist Ruffin Prevost reports that the federal government payed displaced ranchers $45 an acre for land used to grow alfalfa, $35 for grain acreage, $20 for unbroken land with water rights, $7.50 for river bottom grazing land and $3.50 for waterless grazing land. Buffalo Bill Cody received $3,900 for his 80-acre tract of land known as Buffalo Meadows, and the Trimmer family was paid about $12,000 for their ranch.

Alexander Hamilton's Defining Moments

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The federal government would assume the debts of the states, amounting to $22 million, and add them to the domestic debt of $42 million. It would then inform holders of any old debt certificates bearing 6% interest that they could turn them in for new US certificates bearing a lower interest, averaging 4%, but having a guaranteed payment from a permanent pledge of revenues from Congress.[3]

Where were the revenues to come from? The Constitution had empowered Congress to create a tax system that could provide sufficient revenues without unduly burdening the public. Hamilton's report called for more efficient, indirect consumption taxes using federally levied and collected import duties and excises to replace direct state taxation. Once Congress passed the report in three Acts from August 4-12, 1790, with these assured and pledged revenues for payment of interest, the value of the new funded public debt certificates increased rapidly, rising in value from $15 million to $45 million by the end of 1790.

Congress effectively created a capital resource of liquid assets for the economy equal to the rising value of the debt, which traders would purchase with specie and bank notes, and for which lenders would readily issue credit. As Hamilton said in 1782, a new capital and medium of commerce "equal to the whole amount of the domestic debt" could be created with the proper commitments in place.

The assumption of state debts freed the states of the biggest part of their state budgets. Direct taxes were cut throughout the states by as much as 85%, on average, between 1785 and 1795.

The Bank of the United States

Hamilton's funding system of 1790, foretold almost a decade earlier, contributed to wide prosperity. But the factor that ensured the success of the new financial system was the Bank of the United States. In December 1790, Hamilton urged Congress to authorize private parties to put their assets in the form of newly-funded debt into a bank. Holders of the new government debt certificates, he said, could turn them in to buy shares of the capital stock of the bank, as long as they included one dollar of specie for every three in debt.

The bank provided a stable and sufficient currency to meet taxation needs, discounted US securities and bills of exchange, created a payment system in notes and deposit credit, allowed merchants to pay duties on credit and the government to pay its domestic debts in bank notes and deposit credit instead of specie, accelerated agriculture and industry with its credit and amplified the value of government deposits in loans. In the 1790s, many state banks also rose into place to facilitate growth.

Trade and commerce rapidly expanded with the credit supply from the developing banking system. For example, the value of US exports doubled between 1790 and 1795, dramatically increasing tariff revenues for the Treasury. And the total tonnage of US ships entering US ports with cargo increased by 63%.

Hamilton's two initiatives, creating a funded debt and establishing a sound banking system based upon it, pulled the economy out of the long depression of the 1780s, established the credibility of America's finances and created the basis for a strong financial system. Hamilton's early statements while serving in the Continental Congress provide important hints as to how he came to these financial initiatives. $

This article draws from Chapters 3–7 of the author's book, The Challenge of Credit Supply: American Problems and Solutions 1650–1950. *For further detail on the period and events described, the reader is encouraged to obtain a copy on Amazon or Vernon Press.*

Notes

1. January 9, 1790, "Report Relative to a Provision for the Support of Public Credit," and his December 13, 1790, "Second Report on the Further Provision Necessary for Establishing Public Credit (Report on a National Bank)."
2. Hamilton had engaged with Morris and others about bank plans from 1779–1781.
3. Hamilton also instructed Congress to take out a new loan for the amount of the foreign debt, $12 million, to pay interest in arrears and pay off the principal in installments. Duties secured the interest payments on the new loan.

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

TRIVIA QUIZ

1. What city housed the only branch of the US Mint located outside the United States?

2. How does the image on the $100 Liberty gold coin issued on April 6, 2017 differ from that on earlier Liberty coin issues?

3. What bank was founded in Washington, DC to serve the needs of freed slaves following the Civil War?

4. Who was the first Treasurer of the United States?

5. What small financial newspaper beat its giant newspaper rivals in exposing the "Keating Five" scandal in the 1980s?

6. In what year was US paper money of its current size placed into circulation?

7. Of the 15 US Treasurers appointed since 1949, how many have been women?

8. What CEO of AIG returned the insurance giant to profitability following the Financial Crisis of 2008?

9. What was the first *de facto* central bank in the Unites States?

10. The Museum is located on the corner of Wall and William Streets. William Street is named after William Beekman, who traveled to New York on the same ship as Peter Stuyvesant. What was the name of that ship?

1. Manila, Philippines **2.** Lady Liberty is portrayed as an African-American woman **3.** The Freedman's Bank **4.** Michael Hillegas **5.** *National Thrift News* **6.** 1929 **7.** 15 (all of them) **8.** Bob Benmosche **9.** The Bank of North America **10.** The *Princess Amelia*

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